

**ROCK RAPIDS MUNICIPAL UTILITIES,
A COMPONENT UNIT OF
THE CITY OF ROCK RAPIDS**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2011

*De Noble & Company PC
Certified Public Accountants
Rock Rapids, Iowa*

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**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Officials

Name	Title	Term Expires
David Foltz	Board of Trustees Chairman	August 31, 2011
Stan Knobloch	Board of Trustees Vice Chairman	August 31, 2013
Randal Koll	Board of Trustees Member	August 31, 2015
George Schneidermann	Board of Trustees Ex-Official Member	August 31, 2011
Jordan Kordahl	Board of Trustees Secretary	Indefinite
James Hoyer	Utilities Manager	Indefinite
Austin, Haberkorn & Kippely	Attorneys	Indefinite

DE NOBLE & COMPANY PC

Certified Public Accountants

MEMBERS

111 S. Story Street
Rock Rapids, IA 51246

American Institute - Certified Public Accountants
Private Companies Practice Section
Iowa Society - Certified Public Accountants

Phone : (712) 472-2549
Fax : (712) 472-2540
Email : ssdnrr@hickorytech.net

Independent Auditor's Report

To the Members of the Utilities Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the Rock Rapids Municipal Utilities, a component unit of the City of Rock Rapids, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the Utilities' basic financial statements listed in the table of contents. These financial statements are the responsibility of the Rock Rapids Municipal Utilities' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note (1) to the financial statements, management has not recorded the net other postemployment benefits (OPEB) liability in the business type activities and the proprietary funds and, accordingly, has not recorded the corresponding OPEB expense. There are also no disclosures reported on the OPEB obligation in the notes to the financial statements. Accounting principles generally accepted in the United States of America require that the net OPEB liability be reported and expensed, which would increase liabilities and expenses and decrease net assets of the business type activities and the proprietary funds and that certain information/data be disclosed in the notes to the financial statements in regards to the OPEB. The amount by which this departure would affect the liabilities, net assets and expenses of the business type activities and the proprietary funds and the failure to report the required OPEB disclosures is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in all material respects, the respective financial position of the business type activities and each proprietary major fund of the Rock Rapids Municipal Utilities, a component unit of the

City of Rock Rapids, Iowa, at June 30, 2011, and the respective changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the governmental major fund of the Rock Rapids Municipal Utilities', a component unit of the City of Rock Rapids, Iowa, at June 30, 2011, and respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2012 on our consideration of the Rock Rapids Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 5 through 13 and 48 through 50 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it. Management has omitted the Schedule of Funding Progress for the Retiree Health Plan that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rock Rapids Municipal Utilities', a component unit of the City of Rock Rapids, Iowa, basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the fiscal year ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements and the fiscal year ended June 30, 2010 (which are not presented herein) and expressed adverse opinions on those financial statements. We expressed adverse opinions for the fiscal year ended June 30, 2010 because management did not record the net other postemployment benefits (OPEB) liability in the business type activities and the proprietary funds and,

accordingly, did not record the corresponding OPEB expense. There were also no disclosures reported on the OPEB obligation in the notes to the financial statements. Accounting principles generally accepted in the United States of America required that the net OPEB liability be reported and expensed, which would increase liabilities and expenses and decrease net assets of the business type activities and the proprietary funds and that certain information/data be disclosed in the notes to the financial statements in regards to the OPEB. Other supplementary information included in Schedules 1 through 16 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Because of the significance of not recording the net OPEB liability and the corresponding expense in the business type activities and proprietary funds and not reporting disclosures on the net OPEB obligation in the notes to the financial statements for the fiscal year ended June 30, 2011, it is inappropriate to, and we do not, express an opinion on the supplementary information referred to above.



De Noble & Company PC
Certified Public Accountants

January 24, 2012

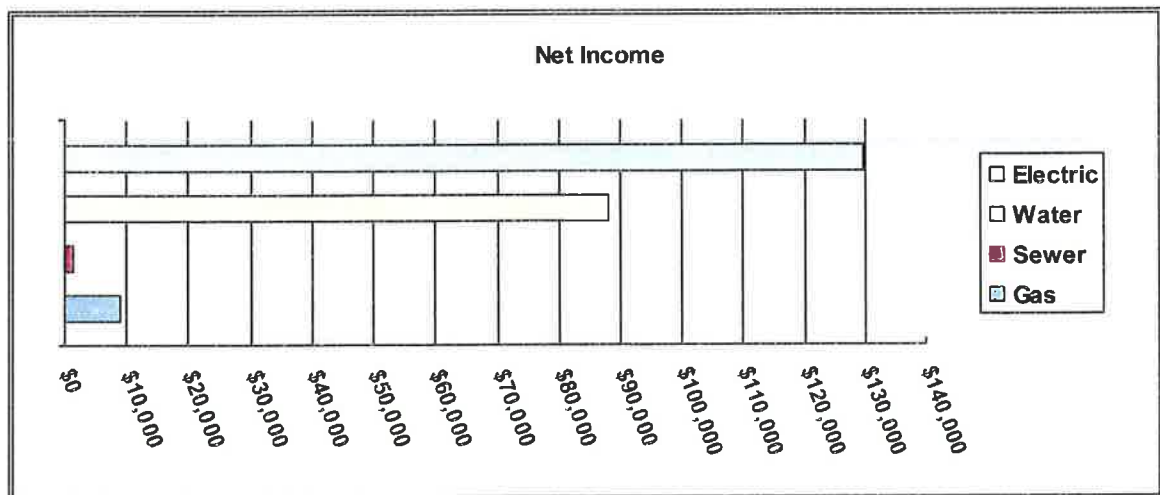
Management's Discussion and Analysis

The Rock Rapids Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- The Utilities' total net assets increased 2.0% during the fiscal year ended June 30, 2011. The total net assets increased from \$14,186,739 to \$14,474,463, a \$287,724 increase. Governmental activities net assets increased by \$60,000 (from \$0 to \$60,000 – due to a transfer from the Gas Utility Fund in order to provide funding for a new Revolving Loan Fund). Business type activities increased by \$227,724 (from \$14,186,739 to \$14,414,463).
- The Utilities' business type activities total revenues/special items increased 1.5% during the fiscal year ended June 30, 2011. The total revenues increased from \$3,987,160 to \$4,048,869, a \$61,709 increase. The increase is mainly due to a rate increase in the Electric Utility that went into effect in February 2010.
- The Utilities' business type activities total expenses decreased 0.3% during the fiscal year ended June 30, 2011. The total expenses decreased from \$3,772,721 to \$3,761,145, an \$11,576 decrease.
- The change in net assets for the fiscal year ended June 30, 2011 for each individual Enterprise Fund is as follows:

Electric Utility	\$	129,640
Water Utility		87,878
Sewer Utility		1,244
Gas Utility		8,962
Total	\$	<u>227,724</u>



USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

The Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utilities' financial activities.

The Government-Wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the Utilities as a whole and present an overall view of the Utilities' finances.

The Fund Financial Statements report the Utilities' operations in more detail than the government-wide statements by providing information about each of the funds.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

The Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' budget for the year.

The Other Supplementary Information provides detailed comparison information for each existing Utility for the fiscal year ended June 30, 2011, compared to the fiscal years ended June 30, 2010 and 2009.

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

Government-Wide Financial Statements

One of the most important questions asked about the Utilities' finances is, "Is the Utilities as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the Utilities' assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the Utilities' net assets may serve as a useful indicator of whether the financial position of the Utilities is improving or deteriorating.

The Statement of Activities presents information showing how the Utilities' net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus,

revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Net Assets and the Statement of Activities report two kinds of activities:

- Governmental activities include community and economic development (through the start up of a new Revolving Loan Fund). A Federal grant and a Gas Utility transfer are going to finance the majority of this loan program.
- Business type activities include the Electric, Water, Sewer and Gas Utility departments. These activities are financed primarily by user charges.

Fund Financial Statements

The Utilities has two kinds of funds:

- (1) The Utilities has a Governmental (Special Revenue) Fund to account for a newly established revolving loan program that is in the process of being established through \$300,000 in funding that will be provided by a "Rural Economic Development Grant" and a \$60,000 matching contribution from the Gas Utility Fund. This fund is reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund financial statements provide a detailed, short-term view of the Utilities' governmental operation and the basic service it is providing. Governmental Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Utilities' program.

The required financial statements for the Governmental Fund include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance.

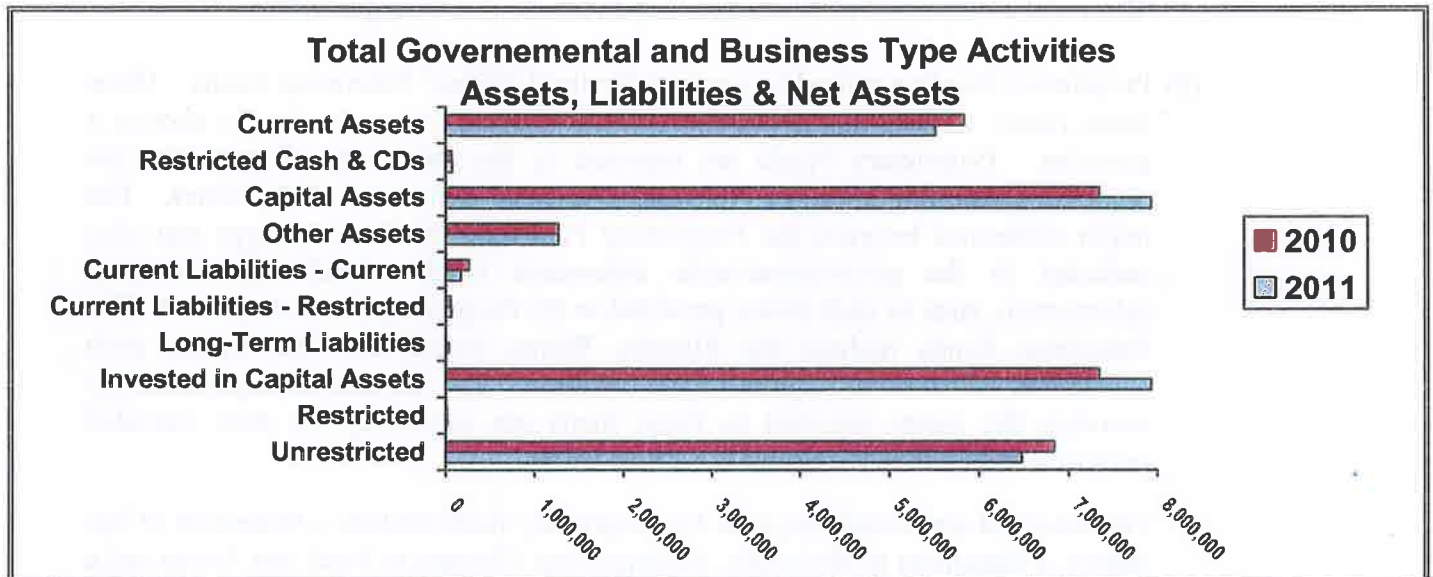
- (2) Proprietary Funds are used to account for the Utilities' Enterprise Funds. These funds report services for which the Utilities charges customers for the service it provides. Proprietary Funds are reported in the same way all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the Proprietary Funds and the business type activities included in the government-wide statements is the detail and additional information, such as cash flows, provided in the Proprietary Fund statements. The Enterprise Funds include the Electric, Water, Sewer and Gas Funds, each considered to be a major fund of the Utilities. The Utilities is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

The financial statements required for proprietary funds include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets and a Statement of Cash Flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for governmental and business type activities from a year ago.

	Governmental Activities		Business Type Activities	
	Net Assets at Year End		Net Assets at Year End	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Current Assets	\$ 30,000	0	5,509,363	5,831,788
Restricted Cash and CDs	0	0	72,018	63,258
Capital Assets (Net)	0	0	7,929,527	7,341,025
Other Assets	30,000	0	1,263,141	1,262,777
Total Assets	60,000	0	14,774,049	14,498,848
Current Liabilities				
(Payable from Current Assets)	0	0	167,188	258,045
Current Liabilities				
(Payable from Restricted Assets)	0	0	59,440	54,064
Long-Term Liabilities	0	0	32,958	0
Total Liabilities	0	0	359,586	312,109
Net Assets:				
Invested in Capital Assets	0	0	7,929,527	7,341,025
Restricted	60,000	0	12,578	9,194
Unrestricted	0	0	6,472,358	6,836,520
Total Net Assets	\$ 60,000	0	14,414,463	14,186,739



The largest portion of the Utilities' business type activities net assets is invested in capital assets (land, utility plant, transportation equipment, office equipment, tools and safety devices, communication equipment, meter testing equipment, intangibles and construction work in progress) (55.0% of the net assets total for fiscal year ended June 30, 2011). For fiscal years ended June 30, 2011 and June 30, 2010, there is no capital assets related external debt. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used (100% of the net assets total for governmental activities and 0.1% of the net assets total for business type activities for fiscal year ended June 30, 2011). Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements (44.9% of the net assets total for business type activities for fiscal year ended June 30, 2011).

	Governmental Activities		Business Type Activities	
	Changes in Net Assets		Changes in Net Assets	
	For the Year Ended		For the Year Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Revenues:				
Program Revenues:				
Charges for Services	\$ 0	0	3,888,610	3,757,135
General Revenues:				
Gain on Disposal of Capital	0	0	9,650	0
Rentals	0	0	6,880	6,880
Customer Penalties/Credit	0	0	3,174	2,005
Interest Income	0	0	113,185	148,142
Miscellaneous Income	0	0	0	72
Gas Rate Case Settlement	0	0	3,233	3,779
Free Community Service	0	0	0	526
Hail Insurance Proceeds	0	0	10,118	0
Total Revenues	0	0	4,034,850	3,918,539
Program Expenses:				
Electric	0	0	1,993,229	1,869,397
Water	0	0	364,412	439,833
Sewer	0	0	239,185	208,530
Gas	0	0	1,164,319	1,254,511
Total Expenses	0	0	3,761,145	3,772,271
Special Items:				
Energy Efficiency & Conservation				
Block Grant	0	0	13,150	0
WTFAP Grant	0	0	869	68,621
Total Special Items	0	0	14,019	68,621
Other Financing Source/Use:				
Operating Transfer (Gas Utility To Revolving Loan Fund)	60,000	0	(60,000)	0

(continued)

	Governmental Activities		Business Type Activities	
	Changes in Net Assets		Changes in Net Assets	
	For the Year Ended		For the Year Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Increase in Net Assets	60,000	0	227,724	214,889
Net Assets Beginning of Year	0	0	14,186,739	13,971,850
Net Assets End of Year	\$ 60,000	0	14,414,463	14,186,739

The “Increase in Net Assets” from fiscal year ended June 30, 2011 compared to June 30, 2010 was higher by \$12,835 (6.0%) in the business type activities. The Utilities total net assets (governmental activities and business type activities) increased 2.0% during the fiscal year ended June 30, 2011. The reason the amount of “Increase in Net Assets” was lower was slightly higher than last year was mainly due to the increase in “charges for services”, which was able to offset a decrease in interest earnings and grant income. The Utilities was able to keep expenses constant with the prior fiscal year.

INDIVIDUAL MAJOR FUND ANALYSIS

Revolving Loan Fund (Special Revenue)

The Revolving Loan Fund was established by a \$60,000 transfer from the Gas Utility Fund during fiscal year ended June 30, 2011. This money represents the Utilities match needed to qualify in fiscal year ended June 30, 2012 for a \$300,000 “Rural Economic Development Grant” that is assisting the Utilities in establishing money that can be loaned to area businesses for new endeavors, to maintain retention or for expansion.

Operating Revenues (Utility Funds)

Electric operating revenues were \$2,078,607, up \$244,988 or 13.4% from the previous fiscal year, due mainly to the first full year of the rate increase implemented on February 1, 2010.

Water operating revenues were \$437,692, down \$30,731 or 6.6% from the previous fiscal year, due mainly to a reduction in the amount of gallons sold.

Sewer operating revenues were \$238,000, down \$687 or 0.3% from the previous fiscal year, due mainly to a very slight decrease in metered water sales volume.

Gas operating revenues were \$1,134,311, down \$83,469 or 6.9% from the previous fiscal year, due to a reduction in commodity sales and natural gas commodity prices.

Operating Expenses (Utility Funds)

Electric operating expenses were \$1,993,096, up \$126,221 or 6.8% from last fiscal year, due mainly to increases in purchased power costs during the fiscal year.

Water operating expenses were \$335,837, down \$70,802 or 17.4% from last fiscal year, due mainly to a correlation with sales being down, there were some larger water piping repair work last fiscal year and the purchase of easements in the prior fiscal year.

Sewer operating expenses were \$235,016, up \$32,831 or 16.2% from last fiscal year, due mainly to an increase in maintenance costs this fiscal year.

Gas operating expenses were \$1,164,073, down \$89,802 or 7.2% from last fiscal year, due mainly to a reduction in the volume of commodity purchases and lower natural gas commodity prices.

Net Assets (Utility Funds)

The Electric Fund, which accounts for the operation and maintenance of the electric system, ended fiscal year 2011 with a \$5,834,350 net asset balance compared to the prior year ending net asset balance of \$5,704,710 (\$129,640 increase or 2.3%). The prior fiscal year change was an increase of \$3,980.

The Water Fund, which accounts for the operation and maintenance of the water system, ended fiscal year 2011 with a \$2,892,507 net asset balance compared to the prior year ending net asset balance of \$2,804,629 (\$87,878 increase or 3.1%). The prior fiscal year change was an increase of \$30,294.

The Sewer Fund, which accounts for the operation and maintenance of the sewer system, ended fiscal year 2011 with a \$1,067,640 net asset balance compared to the prior year ending net asset balance of \$1,066,396 (\$1,244 increase). The prior fiscal year change was an increase of \$98,001. The main reasoning the net asset balance increase was less than last year was due primarily to the amount of the WTFAP Grant recognized in the prior fiscal year.

The Gas Fund, which accounts for the operation and maintenance of the gas system, ended fiscal year 2011 with a \$4,619,966 net asset balance compared to the prior year ending net asset balance of \$4,611,004 (\$8,962 increase or 0.02%). The prior fiscal year change was an increase of \$82,614. The main reasoning the net asset balance increase was less than last year was due primarily to a drop in interest income (\$22,251 decrease) and the \$60,000 transfer during the fiscal year to establish the Revolving Loan Fund.

BUDGETARY HIGHLIGHTS

During fiscal year ended June 30, 2011, the Rock Rapids Municipal Utilities did not amend its budget.

Receipts came in \$443,385 under budget. The Electric Fund receipts came in \$30,578 over budget, the Water Fund came in \$108,016 under budget, the Sewer Fund came in \$99,140 under budget, the Gas Fund came in \$267,308 under budget and the Revolving Loan Fund came in \$501 over budget.

Disbursements came in \$80,149 under budget. The Electric Fund came in \$51,314 over budget, the Water Fund came in \$35,648 over budget, the Sewer Fund came in \$25,418 under budget, the Gas Fund came in \$201,693 under budget and the Revolving Loan Fund came in \$60,000 over budget.

Other financing sources/uses came in \$9,650 over budget (Water Fund).

The Utilities budgets on the cash basis but maintains its records on an accrual basis; therefore, accurate cash basis budgeting is a challenge for the Utilities.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Please see Note (6) to the financial statements for more information about the Utilities' capital assets and related depreciation. The major additions during the fiscal year were for utility plant, a fiberglass pickup body and a 2011 Chevrolet Colorado pickup. Utility plant additions were for Electric Utility line improvements; the Water Utility's 2010 water main project (water distribution system improvements); the Sewer Utility's wastewater treatment system disinfection facilities improvements and new mains for the Gas Utility.

Construction in progress at June 30, 2011 consists primarily of an electric substation project, electric meters replacement project, water gravity filter rehabilitation project, water plant improvement project, water meters replacement project, Scada system improvements project for sewer and gas meters replacement project.

Long-Term Debt

The Utilities did not have any external long-term debt outstanding at June 30, 2011. Please see Note (3) for internal long-term loans made from the Gas Fund to the Water and Sewer Funds.

ECONOMIC FACTORS

The Rock Rapids Municipal Utilities Electric Utility experienced higher retail sales in fiscal year 2010/2011. The increased sales were the result of a return to more normal weather conditions. The

evolution of regional transmission organizations in the electric industry may change Rock Rapids Municipal Utilities' rate structure and/or the consumption habits of the customers in the coming year.

The Water Utility saw lower revenues in fiscal year 2010/2011 due to less gallons being sold. This is the second year in a row where the number of gallons sold was down. The need to refurbish the thirty-year old water plant, along with a decline in revenues, may result in the need to increase water rates in the near future.

The Gas Utility realized a profit in fiscal year 2010/2011 mainly due to a reduction in the purchase cost for the gas commodity. The outlook for the coming year in the purchase of the gas commodity continues to look favorable due to an abundance of supply in storage.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and entities we have dealings with a general overview of the Utilities' finances and activities. If you have questions about this report or need additional financial information, contact Jim Hoyer, General Manager, 310 S. 3rd St., Rock Rapids, Iowa.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Basic Financial Statements

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Statement of Net Assets
June 30, 2011

	Governmental Activities	Business Type Activities	Total
Assets			
Current Assets:			
Cash	\$ 501	1,680,911	1,681,412
Certificates of Deposit	0	3,355,000	3,355,000
Accounts Receivable	0	248,311	248,311
Due From Other Governments (Related Party)	0	18,304	18,304
Due From Other Governments	0	9,392	9,392
Internal Balance (Revolving Loan/Gas Utility Funds)	(501)	501	0
Notes Receivable - Rock Rapids Development Corporation	0	5,447	5,447
Note Receivable - Rock Rapids Business	30,000	0	30,000
Interest Receivable	0	19,242	19,242
Inventory	0	107,315	107,315
Prepaid Expenses	0	64,940	64,940
Total Current Assets	30,000	5,509,363	5,539,363
Restricted Cash:			
Customer Deposits	0	59,440	59,440
Depreciation Reserves	0	12,578	12,578
Total Restricted Cash	0	72,018	72,018
Capital Assets:			
Land	0	179,087	179,087
Utility Plant	0	15,286,508	15,286,508
Transportation Equipment	0	280,799	280,799
Office Equipment	0	39,782	39,782
Tools and Safety Devices	0	280,316	280,316
Communication Equipment	0	8,077	8,077
Meter Testing Equipment	0	21,903	21,903
Intangibles	0	34,045	34,045
Total Capital Assets (Before W.I.P.)	0	16,130,517	16,130,517
Less: Accumulated Depreciation/Amortization	0	(8,967,361)	(8,967,361)
Capital Assets -- Net (Before W.I.P.)	0	7,163,156	7,163,156
Construction Work in Progress	0	766,371	766,371
Net Capital Assets	0	7,929,527	7,929,527
Other Assets:			
Notes Receivable - Rock Rapids Development Corporation	0	209,553	209,553
Note Receivable - Rock Rapids Business	30,000	0	30,000
Lewis & Clark Project Membership (Related Party)	0	1,053,588	1,053,588
Total Other Assets	30,000	1,263,141	1,293,141
Total Assets	60,000	14,774,049	14,834,049

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Statement of Net Assets
June 30, 2011

	Governmental Activities	Business Type Activities	Total
Liabilities			
Current Liabilities (Payable From Current Assets):			
Accounts Payable	0	56,065	56,065
Due to Other Governments (Related Party)	0	21,730	21,730
Due to Other Governments	0	9,429	9,429
Construction Contracts Payable	0	52,814	52,814
Accrued Vacation/Comp Time Pay	0	51,592	51,592
Accrued Payroll & Payroll Liabilities	0	14,413	14,413
Flex Spending Payable	0	1,203	1,203
Unearned Income	0	59,942	59,942
Total Current Liabilities (Payable From Current Assets)	0	267,188	267,188
Liabilities Payable From Restricted Cash:			
Customer Deposits	0	59,440	59,440
Long -Term Liabilities:			
Accrued Sick Leave Pay	0	32,958	32,958
Total Liabilities	0	359,586	359,586
Net Assets			
Invested in Capital Assets	0	7,929,527	7,929,527
Restricted for:			
Loans to Businesses	60,000	0	60,000
Depreciation Reserves	0	12,578	12,578
Unrestricted	0	6,472,358	6,472,358
Total Net Assets	\$ 60,000	14,414,463	14,474,463

See Notes to Financial Statement

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Statement of Activities
For the Fiscal Year Ended June 30, 2011**

	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Functions/Programs:					
Governmental Activities:					
Community and Economic Development	\$ 0	0	0	0	0
Business Type Activities:					
Electric Utility	1,993,229	2,078,607	0	85,378	85,378
Water Utility	364,412	437,692	0	73,280	73,280
Sewer Utility	239,185	238,000	0	(1,185)	(1,185)
Gas Utility	1,164,319	1,134,311	0	(30,008)	(30,008)
Total Business Type Activities	<u>3,761,145</u>	<u>3,888,610</u>	<u>0</u>	<u>127,465</u>	<u>127,465</u>
Total	<u>\$ 3,761,145</u>	<u>3,888,610</u>	<u>0</u>	<u>127,465</u>	<u>127,465</u>
General Revenues:					
Gain on Disposal of Capital Assets			0	9,650	9,650
Rentals			0	1,880	1,880
Rentals (Related Party)			0	5,000	5,000
Customer Penalties/Credit Card Fees			0	3,174	3,174
Gas Rate Case Settlement			0	3,233	3,233
Interest Income			0	80,441	80,441
Interest Income (Water, Sewer Funds)			0	32,744	32,744
Hail Insurance Proceeds			0	10,118	10,118
Total General Revenues			<u>0</u>	<u>146,240</u>	<u>146,240</u>
Special Items:					
Energy Efficiency and Conservation Block Grant			0	13,150	13,150
WTFAP Grant			0	869	869
Total Special Items			<u>0</u>	<u>14,019</u>	<u>14,019</u>
Other Financing Source/(Use):					
Operating Transfer (Gas Utility Fund to Revolving Loan Fund)			<u>60,000</u>	<u>(60,000)</u>	<u>0</u>
Change in Net Assets			<u>60,000</u>	<u>227,724</u>	<u>287,724</u>
Net Assets Beginning of Year			<u>0</u>	<u>14,186,739</u>	<u>14,186,739</u>
Net Assets End of Year			<u>\$ 60,000</u>	<u>14,414,463</u>	<u>14,474,463</u>

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Balance Sheet
Governmental Fund
June 30, 2011

	<u>Special Revenue</u>
	<u>Revolving Loan</u>
	<u>Fund</u>
Assets	
Current Assets:	
Cash	\$ 501
Note Receivable - Rock Rapids Business	30,000
Total Current Assets	<u>30,501</u>
Other Asset:	
Note Receivable - Rock Rapids Business	30,000
Total Assets	<u>\$ 60,501</u>
Liabilities and Fund Balance	
Current Liability (Payable From Current Assets):	
Due To Proprietary (Gas Utility) Fund	501
Fund Balance:	
Restricted For:	
Loans to Businesses	60,000
Total Liabilities and Fund Balance	<u>\$ 60,501</u>

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Statement of Revenues, Expenses and Change in Fund Balance
Governmental Fund
For the Fiscal Year Ended June 30, 2011

	<u>Special Revenue</u>
	<u>Revolving Loan Fund</u>
Revenues:	
None	\$ 0
Expenditures:	
None	<u>0</u>
Revenues and Expenditures Equal	0
Other Financing Source:	
Operating Transfer In (Transfer to Establish New Revolving Loan Fund)	<u>60,000</u>
Net Change in Fund Balance	60,000
Fund Balance Beginning of Year	<u>0</u>
Fund Balance End of Year	<u>\$ 60,000</u>

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Enterprise Funds				
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	Total
Assets					
Current Assets:					
Cash	\$ 518,856	253,586	180,803	727,666	1,680,911
Certificates of Deposit	1,030,000	0	0	2,325,000	3,355,000
Accounts Receivable	122,775	36,609	19,047	69,880	248,311
Due From Other Utility Funds	0	0	0	67,181	67,181
Due From Governmental (Revolving Loan) Fund	0	0	0	501	501
Due From Other Governments (Related Party)	4,978	11,920	592	814	18,304
Due From Other Governments	6,623	474	546	1,749	9,392
Notes Receivable - Rock Rapids Development Corporation	0	0	0	5,447	5,447
Interest Receivable	5,782	0	0	13,460	19,242
Inventory	48,311	25,122	0	33,882	107,315
Prepaid Expenses	25,119	16,062	12,370	11,389	64,940
Total Current Assets	1,762,444	343,773	213,358	3,256,969	5,576,544
Restricted Cash:					
Customer Deposits	22,357	6,845	0	30,238	59,440
Depreciation Reserves	0	0	12,578	0	12,578
Total Restricted Cash	22,357	6,845	12,578	30,238	72,018
Capital Assets:					
Land	46,913	118,311	0	13,863	179,087
Utility Plant	8,025,757	4,123,355	2,217,179	920,217	15,286,508
Transportation Equipment	111,468	29,951	38,380	101,000	280,799
Office Equipment	24,958	6,498	730	7,596	39,782
Tools and Safety Devices	129,052	45,116	30,251	75,897	280,316
Communication Equipment	7,071	1,006	0	0	8,077
Meter Testing Equipment	16,235	5,668	0	0	21,903
Intangibles	11,990	6,710	3,355	11,990	34,045
Total Capital Assets (Before W.I.P.)	8,373,444	4,336,615	2,289,895	1,130,563	16,130,517
Less: Accumulated Depreciation/Amortization	(4,609,364)	(2,371,558)	(1,402,693)	(583,746)	(8,967,361)

Capital Assets – Net (Before W.I.P.)	3,764,080	1,965,057	887,202	546,817	7,163,156
Construction Work in Progress	422,290	208,701	53,940	81,440	766,371
Net Capital Assets	4,186,370	2,173,758	941,142	628,257	7,929,527
Other Assets:					
Advances To Other Utility Funds	0	0	0	641,868	641,868
Notes Receivable - Rock Rapids Development Corporation	0	0	0	209,553	209,553
Lewis & Clark Project Membership (Related Party)	0	1,053,588	0	0	1,053,588
Total Other Assets	0	1,053,588	0	851,421	1,905,009
Total Assets	5,971,171	3,577,964	1,167,078	4,766,885	15,483,098
Liabilities					
Current Liabilities (Payable From Current Assets):					
Accounts Payable	18,015	30,418	2,578	5,054	56,065
Due To Other Utility Fund	0	51,785	15,396	0	67,181
Due To Other Governments (Related Party)	166	90	45	21,429	21,730
Due To Other Governments	6,842	1,331	206	1,050	9,429
Construction Contracts Payable	50,794	0	2,020	0	52,814
Accrued Vacation/Comp Time Pay	19,043	9,932	7,144	15,473	51,592
Accrued Payroll & Payroll Liabilities	5,933	2,518	1,978	3,984	14,413
Flex Spending Payable	1,203	0	0	0	1,203
Unearned Income	530	0	0	59,412	59,942
Total Current Liabilities (Payable From Current Assets)	102,526	96,074	29,367	106,402	334,369
Liabilities Payable From Restricted Cash:					
Customer Deposits	22,357	6,845	0	30,238	59,440
Long -Term Liabilities:					
Accrued Sick Leave Pay	11,938	5,441	5,300	10,279	32,958
Advance From Other Utility Fund	0	577,097	64,771	0	641,868
Total Long-Term Liabilities	11,938	582,538	70,071	10,279	674,826
Total Liabilities	136,821	685,457	99,438	146,919	1,068,635
Net Assets					
Invested in Capital Assets, Net of Related Debt	4,186,370	2,173,758	860,975	628,257	7,849,360
Restricted for:					
Depreciation Reserves	0	0	12,578	0	12,578
Unrestricted	1,647,980	718,749	194,087	3,991,709	6,552,525
Total Net Assets	\$ 5,834,350	2,892,507	1,067,640	4,619,966	14,414,463

See Notes to Financial Statements.

Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2011

	Enterprise Funds				
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	Total
Operating Revenues:					
Residential Sales	\$ 1,058,985	0	0	747,290	1,806,275
Commercial Sales	972,168	0	0	381,605	1,353,773
Public Street and Highway Lighting	32,363	0	0	0	32,363
Wind Power – Residential and Commercial	548	0	0	0	548
Water Sales – Metered	0	250,839	0	0	250,839
Water Sales – Rural Water System	0	179,379	0	0	179,379
Water Sales – Tank Loads	0	372	0	0	372
Sewer Service	0	0	236,370	0	236,370
Material and Service Sales	5,571	4,149	450	267	10,437
Service Income	4,840	592	0	1,017	6,449
Service Income (Related Party)	4,132	2,361	1,180	4,132	11,805
Total Operating Revenues	2,078,607	437,692	238,000	1,134,311	3,888,610
Operating Expenses:					
Production/Processing Expense	1,231,074	55,948	119,463	784,235	2,190,720
Distribution Expense	185,478	61,045	0	116,715	363,238
Accounting and Collecting	29,717	17,882	7,068	29,097	83,764
Administrative and General	172,855	96,242	55,279	158,430	482,806
Free Community Service (Related Party)	106,314	0	3,838	0	110,152
Free Community Service	16,950	1,550	0	7,975	26,475
Transportation	4,929	1,396	3,098	4,825	14,248
Depreciation	217,009	84,673	34,790	39,811	376,283
Payroll Taxes	28,770	17,101	11,480	22,985	80,336
Total Operating Expenses	1,993,096	335,837	235,016	1,164,073	3,728,022

Operating Income (Loss)	85,511	101,855	2,984	(29,762)	160,588
Nonoperating Revenues (Expenses):					
Gain on Disposal of Capital Assets	0	9,650	0	0	9,650
Rentals	1,000	880	0	0	1,880
Rentals (Related Party)	5,000	0	0	0	5,000
Customer Penalties/Credit Card Fees	1,404	215	204	1,351	3,174
Gas Rate Case Settlement	0	0	0	3,233	3,233
Interest Income	19,928	417	355	59,741	80,441
Interest Income (Water, Sewer Funds)	0	0	0	32,744	32,744
Hail Insurance Proceeds	3,780	3,436	1,001	1,901	10,118
Interest Expense	(133)		0	(246)	(379)
Interest Expense (Gas Fund)	0	(28,575)	(4,169)	0	(32,744)
Net Nonoperating Revenues (Expenses)	30,979	(13,977)	(2,609)	98,724	113,117
Change in Net Assets Before Special Item	116,490	87,878	375	68,962	273,705
Special Items:					
Energy Efficiency and Conservation Block Grant	13,150	0	0	0	13,150
WTFAP Grant	0	0	869	0	869
Total Special Items	13,150	0	869	0	14,019
Change in Net Assets After Special Item	129,640	87,878	1,244	68,962	287,724
Other Financing Use:					
Operating Transfers Out (Transfer to Establish a New Revolving Loan Fund)	0	0	0	(60,000)	(60,000)
Change in Net Assets After Other Financing Use	129,640	87,878	1,244	8,962	227,724
Net Assets Beginning of Year	5,704,710	2,804,629	1,066,396	4,611,004	14,186,739
Net Assets End of Year	\$ 5,834,350	2,892,507	1,067,640	4,619,966	14,414,463

See Notes to Financial Statements.

Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2011

	Enterprise Funds				
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	Total
Cash Flows From Operating Activities:					
Cash Received from Customers and Users	\$ 2,033,791	434,306	237,767	1,123,065	3,828,929
Cash Received from Interfund Services Provided	62,694	901	234	6,778	70,607
Cash Received from Other Revenues	9,780	4,316	1,001	5,134	20,231
Cash Paid to Suppliers/Outside Service Providers	(1,362,325)	(61,404)	(58,462)	(872,097)	(2,354,288)
Cash Paid for Personal Services (Employees)	(275,916)	(163,180)	(103,201)	(231,586)	(773,883)
Cash Paid for Interfund Services Used	(6,467)	(28,877)	(34,181)	(1,082)	(70,607)
Cash Paid for Free Community Service (Related Party)	(106,314)	0	(3,838)	0	(110,152)
Cash Paid for Free Community Service	(16,950)	(1,550)	0	(7,975)	(26,475)
Net Cash Provided By (Used For) Operating Activities	338,293	184,512	39,320	22,237	584,362
Cash Flows From Noncapital Financing Activities:					
Principal Payments on Interfund Loan from the Gas Utility	0	(40,764)	0	0	(40,764)
Interest Paid on Interfund Loan from the Gas Utility	0	(29,193)	0	0	(29,193)
Transfer to Establish Revolving Loan Fund	0	0	0	(60,000)	(60,000)
Net Cash Provided By (Used For) Noncapital Financing Activities	0	(69,957)	0	(60,000)	(129,957)
Cash Flows From Capital and Related Financing Activities:					
Principal Payments on Interfund Loan from the Gas Utility	0	0	(14,689)	0	(14,689)
Interest Paid on Interfund Loan from the Gas Utility	0	0	(4,211)	0	(4,211)
Proceeds from Sale of Capital Assets	0	9,650	0	0	9,650
Purchases/Construction of Capital Assets	(478,462)	(252,494)	(101,938)	(120,617)	(953,511)
Special Item: EECB Grant Proceeds	11,000	0	0	0	11,000
Special Item: WTFAP Grant Proceeds	0	0	10,028	0	10,028
Net Cash Provided By (Used For) Capital and Related Financing Activities	(467,462)	(242,844)	(110,810)	(120,617)	(941,733)

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2011

	Enterprise Funds				
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities (Continued):					
Adjustments to Reconcile Operating Income					
(Loss) to Net Cash Provided By (Used For)					
Operating Activities (Continued):					
Changes in Assets and Liabilities (Continued):					
Decrease (Increase) in Inventory	(958)	734	0	9,575	9,351
Increase in Prepaid Expenses	(217)	(1,364)	(86)	(927)	(2,594)
Increase (Decrease) in Customer Deposits (Cash)	4,666	1,265	0	(555)	5,376
Increase (Decrease) in Accounts Payable (Non Capital Assets Related)	5,508	(5,883)	(786)	1,368	207
Increase (Decrease) in Due to Other Governments (Related Party)	(2)	0	0	2,949	2,947
Increase (Decrease) in Due to Other Governments (Non Capital Assets Related)	76	(107)	(14)	(203)	(248)
Increase in Accrued Vacation/Comp Time Pay	19,043	9,932	7,144	15,473	51,592
Decrease in Accrued Compensated Absences Pay	(26,764)	(11,791)	(11,267)	(22,069)	(71,891)
Increase (Decrease) in Accrued Payroll & Payroll Liabilities	2,007	(639)	327	(238)	1,457
(Decrease) in Flex Spending Payable	(725)	0	0	0	(725)
Increase in Unearned Income	383	0	0	6,886	7,269
Increase in Accrued Sick Leave Pay	11,938	5,441	5,300	10,279	32,958
Net Cash Provided By (Used For)					
Operating Activities	\$ 338,293	184,512	39,320	22,237	584,362

**Reconciliation of Cash and Cash Equivalents at
Year End to Specific Assets Included on the
Statement of Net Assets:**

Current Assets:

Cash	\$	518,856	253,586	180,803	727,666	1,680,911
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Restricted Cash :

Customer Deposits (Cash)		22,357	6,845	0	30,238	59,440
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Depreciation Reserves (Cash)		0	0	12,578	0	12,578
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Cash and Cash Equivalents at Year End	\$	541,213	260,431	193,381	757,904	1,752,929
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See Notes to Financial Statements.

Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Notes to Financial Statements
June 30, 2011

(1) Summary of Significant Accounting Policies

The Rock Rapids Municipal Utilities is a component unit (as determined by criteria specified by the Governmental Accounting Standards Board) of the City of Rock Rapids, which is a political subdivision of the State of Iowa located in Lyon County, Iowa and operated under the Home Rule provisions of the Constitution of Iowa. The Rock Rapids Municipal Utilities provides electric, water, sewer, and gas utilities and related services to its customers. The Utilities developed a Revolving Loan Fund in fiscal year 2010/2011 to assist in the financing of approved rural economic development projects. The Rock Rapids Municipal Utilities is established and operated in accordance with Chapter 388 of the Code of Iowa. The Utilities is governed by a three-member Board of Trustees appointed by the Mayor and approved by the City Council, which exercises oversight responsibility under the criteria of the Code of Iowa.

The financial statements of the Rock Rapids Municipal Utilities have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board except that management has not recorded the net other postemployment benefits (OPEB) liability in the business type activities and the proprietary funds and, accordingly, has not recorded the corresponding OPEB expense. There are also no disclosures reported on the OPEB obligation in the notes to the financial statements.

The Rock Rapids Municipal Utilities operates a single-employer retiree benefit plan which provides medical/prescription drug benefits through a plan with the Sanford Health Plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and OPEB liability/expense. Accounting principles generally accepted in the United States of America require that this net OPEB liability be reported and expensed, which would increase liabilities and expenses and decrease net assets of the business type activities and the proprietary funds. Required disclosures to be in conformity with accounting principles generally accepted in the United States of America that are omitted for this implicit rate subsidy include the plan description, funding policy, annual OPEB cost and net OPEB obligation, funded status and funding progress, and actuarial methods and assumptions.

Management has also decided to omit the Schedule of Funding Progress for the Retiree Health Plan that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the Rock Rapids Municipal Utilities has included all funds, organizations, agencies, boards, commissions and authorities. The Utilities has also considered all potential component units for which it is financially accountable and

other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities. The Rock Rapids Municipal Utilities has no component units which meet the Governmental Accounting Standards Board criteria.

As previously noted, the Rock Rapids Municipal Utilities is a component unit of the City of Rock Rapids. While the Rock Rapids Municipal Utilities is considered legally separate from the City, there is a financial benefit/burden relationship between the City and the Utilities, and a relationship such that exclusion would cause the City of Rock Rapids' financial statements to be misleading or incomplete. The City of Rock Rapids appoints the Utilities' governing body as already disclosed.

The Rock Rapids Municipal Utilities made contributions to the City of Rock Rapids in the amount of \$110,152 (reported as free community service – related party) and reimbursed the City of Rock Rapids for the Utilities share of a water main distribution system improvements project (done in correlation with the 2010 street project) construction contract in the amount of \$68,548 on the cash basis (\$32,249 on the accrual basis) for the fiscal year ended June 30, 2011. The City of Rock Rapids paid the Rock Rapids Municipal Utilities \$5,000 for rent and \$11,805 for garbage/recycling billing and collection services. The City of Rock Rapids also pays the Utilities for utility services and both entities charge each other for any occasional labor and materials provided to each other (these costs have not been presented separately in the financial statements).

Joint Ventures – The Utilities is a participant in joint ventures that provide goods and/or services to the Utilities. There is ongoing financial interest and responsibility by the Utilities and other participating members, which is reflected through the price each joint venture charges to provide the goods and/or services to the Utilities and other participating members. The Utilities has this ongoing financial interest and responsibility as a member of the Missouri River Energy Services and the Lewis & Clark Regional Water System, Inc. The Utilities paid the Missouri River Energy Services \$1,176,564 for power and energy services, \$2,521 for dues and \$300 for meeting registrations. The Utilities received \$77,294 from the Missouri River Energy Services as a reimbursement for monthly capacity generation fees and generator costs and \$30,470 as a reimbursement for the "Bright Energy Solutions Program." Please see Note (7) for information on the Lewis & Clark Regional Water System, Inc. Financial information on each joint venture is not included with the Utilities' financial statements. In order to obtain financial information and financial statements on each joint venture to determine whether each joint venture is accumulating significant financial resources or is experiencing fiscal stress that may cause an additional financial benefit to or burden on the Utilities, please contact the Utilities Manager at the Utilities office.

B. Basis of Presentation

Government-Wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all activities of the Utilities. For the most part, the effect of interfund activity has been removed from these statements, except for interfund service billings and interest charged for interfund loans. Governmental activities, which are supported by intergovernmental revenues, are reported separately from business type activities rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the Utilities' assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, consists of capital assets, net of accumulated depreciation/amortization.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function/program are offset by program revenues. Direct expenses are those clearly identifiable with a specific function/program. Program revenues can include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function/program, when applicable. Unrestricted interest and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

The Utilities reports the following major governmental fund:

Special Revenue:

The Revolving Loan Fund is to be used to account for all funds derived from a "Rural Economic Development Grant" agreement between the Utilities and Rural Development, through the Rural Business – Cooperative Service. This Revolving Loan Fund is to be used to assist in the financing, through the form of a loan, of approved rural economic development projects. This Fund is meant to attract, retain and/or expand business that would generate public benefits to the citizens of Rock Rapids and the surrounding area.

The Utilities reports the following major proprietary funds (the Utilities considers all the funds the Utilities has as major):

Enterprise:

The Electric Utility Fund is used to account for the operation and maintenance of the Utilities' electric system.

The Water Utility Fund is used to account for the operation and maintenance of the Utilities' water system.

The Sewer Utility Fund is used to account for the operation and maintenance of the Utilities' sanitary sewer system.

The Gas Utility Fund is used to account for the operation and maintenance of the Utilities' gas system.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Utilities consider revenues to be available if they are collected within 60 days after year end.

Intergovernmental revenues and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Utilities.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due, as applicable. Proceeds of general long-term debt are reported as other financing sources, as applicable.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the Utilities' policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Under terms of some grant agreements, the Utilities may fund certain qualifying expenses by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when qualifying expenses are incurred, there are both restricted and unrestricted net assets available to finance the qualifying expenses. It is the Utilities' policy to first apply cost-reimbursement grant resources to such qualifying expenses, followed by categorical block grants and then by general revenues.

The proprietary funds of the Utilities apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities' Enterprise Funds are charges to customers for sales and services. The principal operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, community service donations and depreciation/amortization on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses, including rental income, customer penalties, miscellaneous income, gas rate case settlement, hail insurance proceeds, interest income, free community service agreement, gain (loss) on disposal of capital assets and interest expense.

The Utilities maintains its financial records on the accrual basis of accounting.

D. Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the financial statements:

Cash, Certificates of Deposit and Cash Equivalents – The cash balances of most of the Utilities funds are pooled and invested. Interest earned on investments is allocated to the appropriate fund. Investments on June 30, 2011 consist of non-negotiable certificates of deposit which are stated at cost.

For purposes of the Statement of Cash Flows, all short-term investments that are highly liquid (including restricted cash) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months. Cash investments not meeting the definition of cash equivalents at June 30, 2011 included all of the certificates of deposit.

Accounts Receivable – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Accounts receivable represents money owed to the Utilities, mainly for utility sales, that was not paid to the Utilities as of June 30, 2011.

Due from and Due to Other Utility Funds/Advance to and Advance from Other Utility Funds – During the course of its operations, the Utilities has numerous transactions

between utility funds and the Utilities also approved some interfund loans between utility funds. To the extent certain transactions and the loans between funds had not been paid or received as of June 30, 2011, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due From Governmental (Revolving Loan) Fund/Due to Proprietary (Gas Utility) Fund –

The Gas Utility Fund borrowed the Revolving Loan Fund enough money in order to keep a bank account open for the new Revolving Loan Fund. The balance on this loan of \$501 is to be paid back in FY 2011/2012 with no interest.

Due from Other Governments (Related Party) – Due from other governments (related party) represents amounts due from the City of Rock Rapids for charges for sales and services provided.

Due from Other Governments – Due from other governments represents amounts due from other governments for charges for sales and services provided and for Energy Efficiency and Conservation Block Grant proceeds.

Inventory – Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed or sold rather than when purchased.

Prepaid Expenses – Prepaid expenses represents insurance premium and other expense payments that will benefit a future fiscal year. Prepayments are recorded as expenses when utilized rather than when paid for.

Restricted Cash – Funds set aside for deposits held by the Utilities (customer deposits restricted for application to unpaid customer accounts or for refund to customers) and per Federal EPA requirements (depreciation reserves - provide cash for repair and replacement of equipment, including the eventual replacement of the entire wastewater treatment plant).

Capital Assets – Capital assets, which include property, utility system improvements, vehicles, equipment and intangibles are reported in the business type activities column in the government-wide Statement of Net Assets and in the appropriate Enterprise Fund column in the Proprietary Funds Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets acquired prior to July 1, 2004 are defined by the Utilities as assets with initial, individual costs in excess of \$500 and estimated useful lives in excess of two years. Reportable capital assets acquired after June 30, 2004 are defined by the Utilities as assets with initial, individual costs in excess of the following thresholds and have estimated useful lives in excess of two years.

Asset Class	Amount
Utility Plant	\$10,000
Equipment, Tools and Safety Devices	\$ 5,000
Intangibles	\$20,000

Capital assets of the Utilities are depreciated/amortized using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Utility Plant	5 – 50 years
Transportation Equipment	5 years
Office Equipment	5 – 10 years
Tools and Safety Devices	5 – 10 years
Communication Equipment	5 – 10 years
Meter Testing Equipment	5 – 7 years
Intangibles	5 – 40 years

Construction projects that have not been completed as of June 30, 2011 are reported as “Construction Work in Progress” on the balance sheet.

Lewis & Clark Project Membership (Related Party) – This represents membership costs to date related to the Lewis & Clark Regional Water System, Inc. project. The membership costs include the Utilities pro rata share of the base system incremental costs and any non-capitalized directly paid member specific incremental costs.

Due to Other Governments/Due to Other Governments (Related Party) – This represents state sales and use taxes, garbage and recycling collections, and payments for services and reimbursements which will be remitted to other governments and the City of Rock Rapids.

Accrued Vacation/Comp Time Pay – The Utilities’ personnel policy provides full-time employees with vacation pay and one employee with comp time pay in varying amounts. Vacation/comp time expenses for employees are charged to operations when earned by the employee in the Government-Wide and Proprietary Funds financial statements. At termination, an employee is paid for accumulated vacation/comp time. The amount recorded in the accounts for vacation/comp time pay aggregated \$51,592 at June 30, 2011 (computed based on rates of pay in effect at June 30, 2011). This liability has been presented as a current liability in the financial statements as this liability is expected to be paid within a year.

Accrued Sick Leave Pay – The Utilities’ personnel policy provides full-time employees with sick leave in varying amounts. Sick leave pay expenses for non-vested employees are charged to operations when taken by the employee. Sick leave pay expenses for vested employees are charged to operations when earned by the employee in the Government-Wide and Proprietary Funds financial statements.

An employee who has been employed by the Utilities for over ten years, but less than fifteen years, and terminates employment due to retirement or death is entitled to 15% of unused accumulated allowable sick leave benefits. An employee who has been employed by the Utilities for over fifteen years and terminates employment for any reason, other than dismissal, is entitled to 15% of accumulated allowable sick leave. As of June 30, 2011, employees' vested sick leave benefits aggregated \$32,958 (computed based on rates of pay in effect at June 30, 2011). Aggregated vested sick leave benefits (15% of accumulated allowable sick leave) are included in the accounts.

A summary of changes in accrued sick pay is as follows:

	Accrued Sick Leave Pay
Balance Beginning of Year	\$ 34,223
Increases	2,174
Decreases	(3,439)
Balance End of Year	\$ 32,958

This liability is recorded in the Government-Wide and Proprietary Fund financial statements as a long-term liability as this liability is not expected to be payable within a year.

Unearned Income – Amounts received on customer accounts before being billed are recorded in the “unearned income” account. Revenue is reported in the period in which it is realized or realizable and earned; therefore, when payments on accounts are received in advance of being earned, the amount applicable to future periods is deferred to future periods. The amount unearned is considered a liability because it represents an obligation to perform a service in the future arising from a past transaction.

Fund Equity – In the Governmental Fund financial statement, fund balance is classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Net Assets: Restricted – In the Proprietary Fund financial statements, restricted net assets are reported for amounts legally restricted by outside parties for use for a specific purpose. The amount of net assets restricted at June 30, 2011 is computed as follows:

	Electric Utility Fund	Water Utility Fund	Sewer Utility Fund	Gas Utility Fund	Total
Total Restricted Cash	\$ 22,357	6,845	12,578	30,238	72,018
Deposits Payable	(22,357)	(6,845)	0	(30,238)	(59,440)
Net Assets:					
Restricted (June 30, 2011)	\$ 0	0	12,578	0	12,578

The restricted net assets in the Sewer Utility Fund is for required depreciation reserves per Federal EPA requirements.

Net Assets: Invested in Capital Assets and Invested in Capital Assets, Net of Related Debt

The “Invested in Capital Assets” is reported in the Government-Wide Statement of Net Assets as \$7,929,527 and the “Invested in Capital Assets, Net of Related Debt” in the Proprietary Funds Statement of Net Assets as \$7,849,360. The \$80,167 difference is due to the removal of the capital related debt (debt attributable to the acquisition, construction or improvement of capital assets) owed by the Sewer Utility to the Gas Utility. The effect of this interfund loan was removed from the Government-Wide Statement of Net Assets as only external debt is reflected in that financial statement.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements in the business type activities function for the Rock Rapids Municipal Utilities did not exceed the amount budgeted as part of the City of Rock Rapids’ adopted budget; however, disbursements in the community and economic development function for the Rock Rapids Municipal Utilities did exceed the amount budgeted as part of the City of Rock Rapids’ adopted budget. The budgetary comparison is prepared by making memorandum adjusting entries to the accrual basis financial records to convert the records to the cash basis (the basis upon which the adopted budget is prepared).

(2) Cash and Investments

The Utilities’ deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute and its written investment policy to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utilities Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts.

The Utilities had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No 3, as amended by Statement No. 40.

Board Designated Reserves – The Utilities Board has designated money to be set aside in Proprietary Funds as reserves for economic development, depreciation, and the Lewis & Clark Project. The money designated for these purposes is included in the unrestricted (current assets) cash balances as of June 30, 2011 as there is no legal responsibility that these amounts be used for these purposes. The amount of the Board designated reserves in Proprietary Funds on June 30, 2011 is as follows:

	Economic Development Reserves	Depreciation Reserves	Lewis & Clark Project Sinking Fund Reserve	Total
Electric Utility Fund	\$ 20,005	\$ 0	\$ 0	\$ 20,005
Water Utility Fund	3,166	77,592	19,780	100,538
Gas Utility Fund	15,110	0	0	15,110
Total	\$ 38,281	\$ 77,592	\$ 19,780	\$ 135,653

(3) Due from and Due to Other Utility Funds/Advance to and Advance from Other Utility Funds

On January 27, 2006, the Gas Utility Fund loaned \$400,000 to the Water Utility Fund to assist with the payment of Lewis & Clark project membership costs. The loan carries a 4.4205 annual percentage interest rate, annual payments are scheduled at \$35,409 and final maturity date is January 27, 2022. During the fiscal year ended June 30, 2011, the Water Utility Fund paid the Gas Utility Fund \$21,073 in principal and \$14,336 in interest on this loan. The June 30, 2011 balance on this loan was \$303,225.

A summary of the annual principal and interest requirements on this loan to maturity by year is as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 22,004	13,405	35,409
2013	22,943	12,466	35,409
2014	23,992	11,417	35,409
2015	25,052	10,357	35,409
2016	26,160	9,249	35,409
2017-2021	149,164	27,879	177,043
2022	33,910	1,499	35,409
Total	\$ 303,225	86,272	389,497

On March 28, 2007, the Gas Utility Fund loaned an additional \$390,257 to the Water Utility Fund to assist with the payment of additional Lewis & Clark project membership costs. The loan carries a 4.4205 annual percentage interest rate, annual payments are scheduled at \$34,548 and final maturity date is March 28, 2023. During the fiscal year ended June 30, 2011, the Water Utility Fund paid the Gas Utility Fund \$19,691 in principal and \$14,857 in interest on this loan. The June 30, 2011 balance on this loan was \$316,399.

A summary of the annual principal and interest requirements on this loan to maturity by year is as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 20,523	14,025	34,548
2013	21,469	13,079	34,548
2014	22,418	12,130	34,548
2015	23,409	11,139	34,548
2016	24,416	10,132	35,548
2017-2021	139,393	33,347	172,740
2022-2023	64,771	4,326	69,097
Total	\$ 316,399	98,178	415,577

On March 27, 2006, the Gas Utility Fund loaned \$150,000 to the Sewer Utility Fund for utility plant capital asset costs. The loan carries a 4.7754 annual percentage interest rate, monthly payments are scheduled at \$1,575 and final maturity date is March 27, 2016. During the fiscal year ended June 30, 2011, the Sewer Utility Fund paid the Gas Utility Fund \$14,689 in principal and \$4,211 in interest on this loan. The June 30, 2011 balance on this loan was \$80,167.

A summary of the annual principal and interest requirements on this loan to maturity by year is as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 15,396	3,504	18,900
2013	16,157	2,743	18,900
2014	16,946	1,954	18,900
2015	17,773	1,127	18,900
2016	13,895	280	14,175
Total	\$ 80,167	9,608	89,775

The balances in the "Due From and Due to Other Utility Funds" and "Advance To and Advance From Other Utility Funds" are for the aforementioned loans between funds and accrued interest on these loans as follows:

Assets/Liabilities	Payable		Receivable
	Water Utility	Sewer Utility	Gas Utility
Due From/To:			
Loan (Current Portion)	\$ (42,527)	(15,396)	57,923
Accrued Interest on Loans	(9,258)	(0)	9,258
Total Due From/To	(51,785)	(15,396)	67,181
Advance To/From:			
Loan (Noncurrent Portion)	(577,097)	(64,771)	641,868
Total	\$ (628,882)	(80,167)	709,049

(4) Notes Receivable – Rock Rapids Development Corporation

On September 28, 2009, the Rock Rapids Municipal Utilities loaned \$140,000 to the Rock Rapids Development Corporation to be used toward the purchase of approximately 28 acres of real estate in Rock Rapids, Iowa for development purposes. This promissory draw note loan earns interest at a rate of 2.5% per annum (accrued interest is to be paid annually with interest computed through December 31st of each year) and is secured by a real estate mortgage on the 28 acres of real estate purchased through the aforementioned loan funds.

The Rock Rapids Development Corporation is to pay all principal and unpaid interest due per this promissory draw note no later than thirty days after written demand for such payment by the Rock Rapids Municipal Utilities, provided, however, that the entire amount of loan outstanding and any unpaid interest shall be paid no later than twenty years after September 28, 2009, and provided further, however, that upon the sale of any part or all of the 28 acres, the Rock Rapids Development Corporation shall repay that percentage of such net sale proceeds from the sale which are equivalent to the percentage of acres sold from the original 28 acres purchased from the proceeds of this loan. If the Rock Rapids Development Corporation sells all 28 acres, the Rock Rapids Development Corporation shall repay the Rock Rapids Municipal Utilities all unpaid principal and interest no later than thirty days after final closing on such sale.

On June 29, 2010, the Rock Rapids Municipal Utilities loaned \$75,000 to the Rock Rapids Development Corporation to be used toward the purchase of a 5 acre parcel of real estate. This promissory draw note loan earns interest at a rate of 3.1% per annum (accrued interest is to be paid annually with interest computed through June 30th of each year) and is secured by a real estate mortgage on the 5 acre parcel of real estate noted above.

This promissory note shall be for a period of ten years with interest only payable annually. The Rock Rapids Development Corporation shall have the right to make additional principal payments at any time. However, upon the sale, gift, or transfer in any way of any part of all of the five acres, the Rock Rapids Development Corporation shall be required to pay to the Rock Rapids Municipal Utilities \$15,000 per acre transferred. The Rock Rapids Development Corporation shall pay this amount to the Rock Rapids Municipal Utilities no later than 30 days after any transfer of real estate.

As of June 30, 2011, the balance on these notes receivable was \$215,000 as no payments had been received on these promissory notes; however, please see Note (16), Subsequent Events, for details on 1.717 of the 5 acre parcel being sold by the Rock Rapids Development Corporation in July 2011. Based on the agreement of the sales, \$5,447 is to be paid to the Utilities in FYE 6-30-2012, with the remaining \$20,304 to be received between July 1, 2012 and July 1, 2015. Based on this information, the Utilities is presenting \$5,447 of the notes receivable as “Current” and \$209,553 as an “Other Asset” on the Statement of Net Assets. Interest income of \$5,787 has been recognized for fiscal year ended June 30, 2011 on these notes receivable.

(5) Note Receivable – Rock Rapids Business

The Utilities loaned the Rock Rapids Community Affairs Corporation \$60,000 in November 2010 from the newly established Revolving Loan Fund to go toward construction costs of a spec building. In August 2011, the Rock Rapids Community Affairs Corporation assigned a real estate contract from the buyers of the spec building over to the Rock Rapids Municipal Utilities. This loan is to be repaid at a rate of \$3,000/month starting September 1, 2011 with no interest on the loan. Based on this, \$30,000 should be collected in fiscal year 2011/2012 (“Current Asset”) and the remaining loan amount of \$30,000 at June 30, 2011 should be received in fiscal year 2012/2013 (“Other Assets”). Please see Note (16), Subsequent Events, for additional money borrowed as part of this loan in fiscal year 2011/2012.

(6) Capital Assets

Capital assets activity for the fiscal year ended June 30, 2011 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business Type Activities:				
Capital Assets Not Being Depreciated/Amortized:				
Land	\$ 179,087	0	0	179,087
Construction Work in Progress	295,235	894,292	(423,156)	766,371
Total Capital Assets Not Being Depreciated/Amortized	474,322	894,292	(423,156)	945,458
Capital Assets Being Depreciated/Amortized:				
Utility Plant	14,832,808	453,700	(0)	15,286,508
Transportation Equipment	240,850	39,949	(0)	280,799
Office Equipment	39,782	0	(0)	39,782
Tools and Safety Devices	280,316	0	(0)	280,316
Communication Equipment	8,077	0	(0)	8,077
Meter Testing Equipment	21,903	0	(0)	21,903
Intangibles	34,045	0	(0)	34,046
Total Capital Assets Being Depreciated/Amortized	15,457,781	493,649	(0)	15,951,430
Less Accumulated Depreciation/Amortization For:				
Utility Plant	8,121,294	330,414	(0)	8,451,708
Transportation Equipment	199,233	17,655	(0)	216,888
Office Equipment	25,699	2,524	(0)	28,233
Tools and Safety Devices	212,601	18,881	(0)	231,482
Communication Equipment	8,079	0	(0)	8,079
Meter Testing Equipment	21,903	0	(0)	21,903
Intangibles	2,269	6,809	(0)	9,078
Total Accumulated Depreciation/Amortization	8,591,078	376,283	(0)	8,967,361
Total Capital Assets Being Depreciated/Amortized, Net	6,866,703	117,366	(0)	6,984,069
Business Type Capital Assets, Net	\$7,341,025	1,011,658	(423,156)	7,929,527

Depreciation/amortization expense was charged to the different Utilities as follows:

Business Type Activities:

Electric Utility	\$ 217,009
Water Utility	84,673
Sewer Utility	34,790
Gas Utility	<u>39,811</u>
Total Depreciation/Amortization Expense – Business Type Activities	<u>\$376,283</u>

(7) Lewis & Clark Project Membership – Related Party

On June 27, 2002, the Rock Rapids Municipal Utilities entered into an agreement with the Lewis and Clark Regional Water System, Inc. to become a member in Lewis & Clark Regional Water System, Inc. On December 22, 2005, the Rock Rapids Municipal Utilities entered into an amended and restated commitment agreement with the Lewis & Clark Regional Water System, Inc. In the amended and restated commitment agreement, the Utilities agrees to pay the Utilities' allocated construction percentage of the base system costs (examples: administrative, overhead, engineering, financing, debt service, legal costs and fees), related membership/lobbying fees and to directly pay for design and construction of service lines plus any other member specific costs. As of June 30, 2011, the Utilities has paid/accrued \$1,053,588 toward the cost of membership, which includes base system costs and related membership/lobbying fees (\$5,811 was paid/accrued during fiscal year ended June 30, 2011). The Utilities has also paid/accrued \$56,398 for design and construction of service lines plus other member specific fees that the Utilities is including in the Construction Work in Progress account (\$15,153 was paid/accrued during fiscal year ended June 30, 2011).

As of June 30, 2011, the Utilities has paid all of its projected allocated construction percentage of the base system costs. There have been no formal projections of the continuing related membership/lobbying fees or of the member specific costs to be incurred yet as of June 30, 2011.

If the Rock Rapids Municipal Utilities would withdraw from membership in Lewis & Clark Regional Water System, Inc., the Utilities would forfeit all amounts paid to Lewis & Clark Regional Water System, Inc., whether in the form of membership fees, construction payments or amounts placed or on deposit in the Maintenance and Repair Fund, the Capital Improvement Fund or the Operating Reserve Fund.

Upon completion of the project, the Rock Rapids Municipal Utilities agrees to purchase a minimum of 137,500 gallons of potable, treated water per day, on average, each month at the water rates and charges set by Lewis & Clark Regional Water System, Inc.

Please see Note (15), Commitments, for an additional water purchase agreement entered into with Lewis & Clark Regional Water System, Inc.

(8) Due to Other Governments/Due to Other Governments -- Related Party

The Utilities purchases services from other governmental units, remits sales and use tax to the State of Iowa, reimburses the City of Rock Rapids for expenses, and remits garbage and recycling collections to the City of Rock Rapids.

A summary of amounts due to other governments follows:

Fund	Description	Amount
Electric Utility	State Sales and Use Tax	\$ 6,842
Water Utility	State Sales and Use Tax	1,331
Sewer Utility	State Sales and Use Tax	206
Gas Utility	State Sales and Use Tax	1,050
Total		<u>\$ 9,429</u>

A summary of amounts due to other governments--related party (City of Rock Rapids) follows:

Fund	Description	Amount
Electric Utility	Expense Reimbursement	\$ 166
Water Utility	Expense Reimbursement	90
Sewer Utility	Expense Reimbursement	45
Gas Utility	Garbage/Recycling Collections and Expense Reimbursement	21,429
Total		<u>\$ 21,730</u>

(9) EECB and WTFAP Grant -- "Special Items"

The Utilities and the City have been approved for a \$105,579 Energy Efficiency and Conservation Block (EECB) Grant for the purpose of replacing street lighting in Rock Rapids (Retrofit Street Lighting Project). The Utilities and the City must match the \$105,579 grant. The Utilities has committed to match \$103,579 from the Electric Fund (\$91,921 in cash and \$11,658 in the form of in-kind labor contributions to the project). Additionally, the City of Rock Rapids will provide in-kind labor contributions to the project of \$2,000. As of June 30, 2011, the Utilities is reporting EECB Grant income of \$13,150 (\$11,000 received as of June 30, 2011, with \$2,150 reported as "Due From Other Governments"), as well as provided \$2,960 of in-kind labor towards the project. As of June 30, 2011, the remaining amount to be recognized as revenue from the Grant is \$92,429, with \$102,619 of matching funds to be contributed from the Utilities and the City.

The Rock Rapids Municipal Utilities has been awarded an Iowa Finance Authority Wastewater Treatment Financial Assistance Program (WTFAP) Grant. The WTFAP Grant is to help offset up to 60% of the costs incurred by the Utilities to construct improvements to disinfection facilities in the Sewer Utility. The improvements to the wastewater treatment system are to comply with water quality standards adopted by the Iowa Department of Natural Resources in 2006. The WTFAP Grant award was for up to \$111,135 (60% of \$185,225 in budgeted project costs). For the fiscal year ended June 30, 2011, the Utilities is reporting WTFAP Grant income of \$869 in the Sewer Utility Fund (reported as a "Special Item"). As of June 30, 2011, the improvements to the disinfection facilities were completed and the Utilities received a total of \$88,746 in WTFAP Grant funding over the life of the project (actual costs came in below budget).

(10) Interfund Transfer

The detail of interfund transfer for the fiscal year ended June 30, 2011 is as follows:

Transfer to	Transfer From	Amount
Special Revenue:	Enterprise:	
Revolving Loan Fund	Gas Utility Fund	\$60,000

The \$60,000 transfer from the Gas Utility Fund to the Revolving Loan Fund was the Utilities matching contribution needed to establish a Revolving Loan Fund in order to be eligible to receive \$300,000 in "Rural Economic Development Grant" funding. Please see Note (16), Subsequent Events, for the timing of the receipt of this grant.

(11) Major Customers

Lyon and Sioux Rural Water System, Inc. is a major customer of the Water Utility. Water sales to Lyon and Sioux Rural Water System, Inc., amounted to \$179,379 or 41.0% of the total operating water revenues for the fiscal year ended June 30, 2011.

(12) Pension and Retirement Benefits

The Rock Rapids Municipal Utilities contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the Municipal Utilities is required to contribute 6.95% of covered salary. Contribution requirements are established by state statute. The Utilities' contributions to IPERS for the years

ended June 30, 2011, 2010 and 2009 were \$38,410, \$35,491 and \$33,462, respectively, equal to the required contributions for each year.

(13) Risk Management

The Rock Rapids Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(14) Employee Health Insurance Coverage

The Rock Rapids Municipal Utilities provided group health insurance coverage for eligible employees through the Sanford Health Plan during the fiscal year ended June 30, 2011. As of June 30, 2011, the Utilities is assuming liability for claims against the insurance deductible of up to \$250 (\$500 as of July 1, 2011) under an individual policy and \$1,000 as of July 1, 2011 for an employee plus one or a family policy. The Utilities expense for insurance premiums and any deductibles paid for health insurance coverage is accounted for in the appropriate utility fund.

(15) Commitments

In September 2010, the Utilities entered into a water purchase agreement with the Lewis and Clark Regional Water System to be eligible to receive potable treated water not to exceed 60,000 gallons per day if needed for the Grand Falls Casino and Resort.

In September 2010, the Utilities entered into a contract for \$146,056 (\$121,221 plus \$24,835 in change orders) for Electric Utility substation improvements. As of June 30, 2011, costs of \$99,689 (\$48,895 paid; \$50,794 accrued) have been incurred by the Electric Utility Fund on this contract. The balance of \$46,367 to be incurred remaining on the contract at June 30, 2011 will be recognized in the records and paid as work on the project progresses.

In February 2011, the Utilities entered into an engineering contract for \$85,500 for a Water Utility gravity filter rehabilitation project. As of June 30, 2011, the Utilities has incurred \$21,000 (\$0 paid; \$21,000 accrued) in costs on this project in the Water Fund. The remaining balance on the contract at June 30, 2011 of \$64,500 to be incurred will be recognized in the records and paid as work on the project progresses.

In April 2011, the Utilities was approved for funding from the Hazard Mitigation Grant Program in the amount of \$563,992 (\$497,640 Federal and \$66,352 State) to go toward the total project cost. The Utilities is required to contribute 15 percent of the total project costs in either cash or in-kind labor and has committed to match \$99,528 from the Electric Fund. The total cost of the "Electrical Transmission Retrofit Project" is \$663,520. No qualifying costs have been incurred on this project as of June 30, 2011.

In May 2011, the Utilities formally reapproved a loan of \$360,000 at 0% to the Rock Rapids Community Affairs Corporation from the Utilities' Revolving Loan Fund in exchange for the first mortgage on the real estate (the Community Affairs Corporation utilized the funding to build a commercial spec building).

In June 2011, the Utilities accepted a bid for transformer oil retro-fill at a price of \$38,580 to be paid from the Electric Fund.

(16) Subsequent Events

In July 2011, the Utilities complied with all the requirements under the Rural Economic Development Grant Agreement Program and received the award amount of \$300,000 to assist in the establishing of a Revolving Loan Fund.

The Utilities loaned from the Revolving Loan Fund \$360,000 (\$60,000 was loaned in November 2010 and \$300,000 was loaned in July 2011) to the Rock Rapids Community Affairs Corporation ("CAC") at a 0% interest rate, with principal payable in ten annual installments beginning July 1, 2012. In August 2011, the CAC sold the commercial spec building to a businessman and subsequently assigned the contract and the collateral of the real estate to the Utilities. Terms on the assigned contract (note) carry a 0% interest rate (as awarded by the Revolving Loan Fund Program) with the first payment of \$3,000 due on September 1, 2011 and a payment of \$3,000/month, thereafter, until the loan is paid in full.

In July 2011, the Rock Rapids Development Corporation ("RRDC") sold 1.717 acres of land purchased by the RRDC with \$75,000 in loan proceeds received from the Utilities. Under the loan agreement, the RRDC is required, upon sale of any portion of the land, to repay from the net sales proceeds a percentage of the loan balance equal to the percentage of acres sold to the total land purchased within thirty days of final closing on such sale. The Utilities received \$5,447 in July 2011 and has agreed to allow the RRDC to pay the outstanding amount of \$20,304 in annual payments of \$6,000 plus interest of 3.1 percent commencing July 1, 2012, with final payment due July 1, 2015.

In September 2011, the Utilities entered into a contract for gas main installation for \$58,021. The gas main installation contract has been completed and paid from the Gas Fund in fiscal year '11/'12.

In September 2011, the Utilities awarded a \$595,200 contract for a gravity filter rehabilitation project to be paid from the Water Fund.

During the period of July 2011 through December 2011, the Utilities paid \$31,105 from the Water Fund on the engineering contract outstanding at June 30, 2011 for the water utility gravity filter rehabilitation project.

In November 2011, the Utilities paid \$43,146 from the Electric Fund on the contract outstanding at June 30, 2011 for the Electric Utility substation improvements project.

In December 2011, the Board approved a \$427,802 contract for the 69KV transmission line retrofit hazard mitigation project to be paid from the Electric fund.

Through the date of the audit report, the total amount received from the Energy Efficiency and Conservation Block Grant was \$38,141. Additionally through this date, the Utilities has provided \$12,723 in total matching funds towards the project.

(17) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Required Supplementary Information

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids

Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances –
Budget and Actual (Cash Basis) –
Governmental Fund and Proprietary Funds

Required Supplementary Information

For the Fiscal Year Ended June 30, 2011

	Governmental Proprietary				
	Fund	Funds	Total	Budgeted	Final to Actual
	Actual	Actual	Actual	Amount	Variance
Receipts:					
Use of Money and Property	\$ 0	125,263	125,263	0	125,263
Intergovernmental	0	27,908	27,908	0	27,908
Charges for Service:					
Electric Utility	0	2,092,354	2,092,354	2,108,521	(16,167)
Water Utility	0	435,209	435,209	507,501	(72,292)
Sewer Utility	0	238,000	238,000	334,084	(96,084)
Gas Utility	0	1,129,844	1,129,844	1,555,252	(425,408)
Miscellaneous	501	12,894	13,395	0	13,395
Total Receipts	501	4,061,472	4,061,973	4,505,358	(443,385)
Disbursements:					
Community and Economic Development	60,000	0	60,000	0	(60,000)
Business Type Activities:					
Electric Utility	0	2,246,434	2,246,434	2,195,120	(51,314)
Water Utility	0	542,509	542,509	506,861	(35,648)
Sewer Utility	0	305,832	305,832	331,250	25,418
Gas Utility	0	1,233,357	1,233,357	1,435,050	201,693
Total Disbursements (Business Type Activities)	60,000	4,328,132	4,388,132	4,468,281	80,149
Excess (Deficiency) of Receipts Over (Under) Disbursements	(59,499)	(266,660)	(326,159)	37,077	(363,236)
Other Financing Sources (Uses), Net	60,000	(50,350)	9,650	0	9,650
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	501	(317,010)	(316,509)	37,077	(353,586)
Cash and Certificates of Deposit (Unrestricted and Restricted) – Balances Beginning of Year	0	5,424,939	5,424,939	5,614,332	(189,393)
Cash and Certificates of Deposit (Unrestricted and Restricted) – Balances End of Year	\$ 501	5,107,929	5,108,430	5,651,409	(542,979)

See Accompanying Independent Auditor's Report.

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

For the Fiscal Year Ended June 30, 2011

	Governmental Fund			Proprietary Funds		
	Special Revenue			Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis	Cash Basis	Accrual Adjustments	Accrual Basis
Receipts/Revenues/Special Items	\$ 501	(501)	0	4,061,973	(13,104)	4,048,869
Disbursements/Expenses	60,000	(60,000)	0	4,328,633	(567,488)	3,761,145
Net	(59,499)	59,499	0	(266,660)	554,384	287,724
Other Financing Sources (Uses), Net	60,000	0	60,000	(50,350)	(9,650)	(60,000)
Beginning Fund Balances/Net Assets	0	0	0	5,424,939	8,761,800	14,186,739
Ending Fund Balances/Net Assets	\$ 501	59,499	60,000	5,107,929	9,306,534	14,414,463

See Accompanying Independent Auditor's Report.

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids

Notes to Required Supplementary Information – Budgetary Reporting

For the Fiscal Year Ended June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the major special Revenue Fund and each major Enterprise Fund.

In accordance with the Code of Iowa, the Utilities Board of Trustees annually approves a budget on the cash basis of accounting. The Utilities Board of Trustees submits the approved budget to the Rock Rapids City Council. The cash basis budget is adopted by the Rock Rapids City Council following required public notice and hearing for all funds. The budget is included in the City of Rock Rapids budget. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances and accruals are not recognized on the cash basis budget and appropriations lapse at year end.

The Utilities budgeted all its receipts under the “charges for service” classification. Actual receipts primarily came from the “charges for service” classification; however, the Utilities did have some receipts come from the “use of money and property”, “intergovernmental” and “miscellaneous” receipts classifications. Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the Utilities – Special Revenue Fund and the Enterprise Funds. All Utility disbursements are included in the “business type/enterprises activities” function classification on the City’s adopted budget. Actual disbursements primarily came from the “business type activities” but the new Revolving Loan Fund disbursements came from the “community and economic development” disbursement classification. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the fiscal year, there were no budget amendments for the Rock Rapids Municipal Utilities.

During the year ended June 30, 2011, disbursements in the community and economic development function for the Rock Rapids Municipal Utilities exceeded the amount budgeted as part of the City of Rock Rapids’ adopted budget.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Other Supplementary Information

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Electric Utility Fund
Comparative Statements of Net Assets**

	June 30,		Amount of Change	Percentage of Change
	2011	2010		
Assets				
Current Assets:				
Cash	\$ 518,856	355,857	162,999	46%
Certificates of Deposit	1,030,000	1,305,000	(275,000)	(21%)
Accounts Receivable	122,775	126,356	(3,581)	(3%)
Due From Other Governments (Related Party)	4,978	11,784	(6,806)	(58%)
Due From Other Governments	6,623	5,257	1,366	26%
Interest Receivable	5,782	6,284	(502)	(8%)
Inventory	48,311	47,353	958	2%
Prepaid Expenses	25,119	24,902	217	1%
Total Current Assets	1,762,444	1,882,793	(120,349)	(6%)
Restricted Cash:				
Customer Deposits	22,357	17,691	4,666	26%
Capital Assets:				
Land	46,913	46,913	0	0%
Utility Plant	8,025,757	7,917,388	108,369	1%
Transportation Equipment	111,468	111,468	0	0%
Office Equipment	24,958	24,958	0	0%
Tools and Safety Devices	129,052	129,052	0	0%
Communication Equipment	7,071	7,071	0	0%
Meter Testing Equipment	16,235	16,235	0	0%
Intangibles	11,990	11,990	0	0%
Total Capital Assets (Before W.I.P)	8,373,444	8,265,075	108,369	1%
Less: Accumulated Depreciation/Amortization	(4,609,364)	(4,392,355)	(217,009)	5%
Capital Assets – Net (Before W.I.P)	3,764,080	3,872,720	(108,640)	(3%)
Construction Work in Progress	422,290	8,940	413,350	4,624%
Net Capital Assets	4,186,370	3,881,660	304,710	8%
Total Assets	5,971,171	5,782,144	189,027	3%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Electric Utility Fund
Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2011	2010		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	18,015	21,561	(3,546)	(16%)
Due To Other Governments (Related Party)	166	168	(2)	(1%)
Due To Other Governments	6,842	5,249	1,593	30%
Construction Contracts Payable	50,794	0	50,794	N/A
Accrued Vacation/Comp Time Pay	19,043	0	19,043	N/A
Accrued Compensated Absences Pay	0	26,764	(26,764)	(100%)
Accrued Payroll & Payroll Liabilities	5,933	3,926	2,007	51%
Flex Spending Payable	1,203	1,928	(725)	(38%)
Unearned Income	530	147	383	261%
Total Current Liabilities (Payable From Current Assets)	102,526	59,743	42,783	72%
Liabilities Payable From Restricted Cash:				
Customer Deposits	22,357	17,691	4,666	26%
Long-Term Liability:				
Accrued Sick Leave Pay	11,938	0	11,938	N/A
Total Liabilities	136,821	77,434	59,387	77%
Net Assets				
Invested in Capital Assets	4,186,370	3,881,660	304,710	8%
Unrestricted	1,647,980	1,823,050	(175,070)	(10%)
Total Net Assets	\$ 5,834,350	5,704,710	129,640	2%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Electric Utility Fund
Comparative Statements of Net Assets**

	June 30,		Amount of Change	Percentage of Change
	2011	2009		
Assets				
Current Assets:				
Cash	\$ 518,856	430,622	88,234	20%
Certificates of Deposit	1,030,000	1,205,000	(175,000)	(15%)
Accounts Receivable	122,775	97,579	25,196	26%
Due From Other Governments (Related Party)	4,978	4,120	858	21%
Due From Other Governments	6,623	9,926	(3,303)	(33%)
Interest Receivable	5,782	10,642	(4,860)	(46%)
Flex Spending Receivable	0	3,541	(3,541)	(100%)
Inventory	48,311	51,230	(2,919)	(6%)
Prepaid Expenses	25,119	25,887	(768)	(3%)
Total Current Assets	1,762,444	1,838,547	(76,103)	(4%)
Restricted Cash:				
Customer Deposits	22,357	16,207	6,150	38%
Capital Assets:				
Land	46,913	47,127	(214)	(0%)
Utility Plant	8,025,757	7,801,837	223,920	3%
Transportation Equipment	111,468	111,468	0	0%
Office Equipment	24,958	36,626	(11,668)	(32%)
Tools and Safety Devices	129,052	130,314	(1,262)	(1%)
Communication Equipment	7,071	8,548	(1,477)	(17%)
Meter Testing Equipment	16,235	16,235	0	0%
Intangibles	11,990	0	11,990	N/A
Total Capital Assets (Before W.I.P)	8,373,444	8,152,155	221,289	3%
Less: Accumulated Depreciation/Amortization	(4,609,364)	(4,196,554)	(412,810)	10%
Capital Assets – Net (Before W.I.P)	3,764,080	3,955,601	(191,521)	(5%)
Construction Work in Progress	422,290	6,586	415,704	6,312%
Net Capital Assets	4,186,370	3,962,187	224,183	6%
Total Assets	5,971,171	5,816,941	154,230	3%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Electric Utility Fund
Comparative Statements of Net Assets**

	June 30,		Amount of Change	Percentage of Change
	2011	2009		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	18,015	62,022	(44,007)	(71%)
Due To Other Governments (Related Party)	166	168	(2)	(1%)
Due To Other Governments	6,842	10,126	(3,284)	(32%)
Construction Contracts Payable	50,794	0	50,794	N/A
Accrued Vacation/Comp Time Pay	19,043	0	19,043	N/A
Accrued Compensated Absences Pay	0	24,469	(24,469)	(100%)
Accrued Payroll & Payroll Liabilities	5,933	3,219	2,714	84%
Flex Spending Payable	1,203	0	1,203	N/A
Unearned Income	530	0	530	N/A
Total Current Liabilities (Payable From Current Assets)	102,526	100,004	2,522	3%
Liabilities Payable From Restricted Cash:				
Customer Deposits	22,357	16,207	6,150	38%
Long-Term Liability:				
Accrued Sick Leave Pay	11,938	0	11,938	N/A
Total Liabilities	136,821	116,211	20,610	18%
Net Assets				
Invested in Capital Assets	4,186,370	3,962,187	224,183	6%
Unrestricted	1,647,980	1,738,543	(90,563)	(5%)
Total Net Assets	\$ 5,834,350	5,700,730	133,620	2%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Electric Utility Fund**

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of	Percentage
	2011	2010	Change	of Change
Operating Revenues:				
Residential Sales	\$ 1,058,985	911,890	147,095	16%
Commercial Sales	972,168	877,898	94,270	11%
Public Street and Highway Lighting	32,363	29,161	3,202	11%
Wind Power -- Residential and Commercial	548	552	(4)	(1%)
Material and Service Sales	5,571	6,884	(1,313)	(19%)
Service Income	4,840	3,189	1,651	52%
Service Income (Related Party)	4,132	4,045	87	2%
Total Operating Revenues	2,078,607	1,833,619	244,988	13%
Operating Expenses:				
Production/Processing Expense	1,231,074	1,126,899	104,175	9%
Distribution Expense	185,478	151,669	33,809	22%
Accounting and Collecting	29,717	32,259	(2,542)	(8%)
Administrative and General	172,855	178,949	(6,094)	(3%)
Free Community Service (Related Party)	106,314	115,267	(8,953)	(8%)
Free Community Service	16,950	8,500	8,450	99%
Transportation	4,929	11,654	(6,725)	(58%)
Depreciation	217,009	213,367	3,642	2%
Payroll Taxes	28,770	28,311	459	2%
Total Operating Expenses	1,993,096	1,866,875	126,221	7%
Operating Income (Loss)	85,511	(33,256)	118,767	(357%)
Nonoperating Revenues (Expenses):				
Rentals	1,000	1,000	0	0%
Rentals (Related Party)	5,000	5,000	0	0%
Customer Penalties/Credit Card Fees	1,404	869	535	62%
Miscellaneous Income	0	72	(72)	(100%)
Interest Income	19,928	32,291	(12,363)	(38%)
Free Community Service Agreement	0	526	(526)	(100%)
Hail Insurance Proceeds	3,780	0	3,780	N/A
Loss on Disposal of Capital Assets	0	(2,351)	2,351	(100%)
Interest Expense	(133)	(171)	38	(22%)
Net Nonoperating Revenues (Expenses)	30,979	37,236	(6,257)	(17%)
Change in Net Assets Before Special Item	116,490	3,980	112,510	2,827%
Special Item:				
Energy Efficiency and Conservation				
Block Grant	13,150	0	13,150	N/A
Change in Net Assets After Special Item	129,640	3,980	125,660	3,157%
Net Assets Beginning of Year	5,704,710	5,700,730	3,980	0%
Net Assets End of Year	\$ 5,834,350	5,704,710	129,640	2%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Electric Utility Fund**

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2011	2009		
Operating Revenues:				
Residential Sales	\$ 1,058,985	854,114	204,871	24%
Commercial Sales	972,168	840,430	131,738	16%
Public Street and Highway Lighting	32,363	27,458	4,905	18%
Wind Power – Residential and Commercial	548	564	(16)	(3%)
Material and Service Sales	5,571	11,087	(5,516)	(50%)
Service Income	4,840	3,296	1,544	47%
Service Income (Related Party)	4,132	3,091	1,041	34%
Total Operating Revenues	2,078,607	1,740,040	338,567	19%
Operating Expenses:				
Production/Processing Expense	1,231,074	1,032,432	198,642	19%
Distribution Expense	185,478	152,197	33,281	22%
Accounting and Collecting	29,717	30,253	(536)	(2%)
Administrative and General	172,855	175,741	(2,886)	(2%)
Free Community Service (Related Party)	106,314	108,970	(2,656)	(2%)
Free Community Service	16,950	9,045	7,905	87%
Transportation	4,929	5,160	(231)	(4%)
Depreciation	217,009	211,860	5,149	2%
Payroll Taxes	28,770	24,737	4,033	16%
Total Operating Expenses	1,993,096	1,750,395	242,701	14%
Operating Income (Loss)	85,511	(10,355)	95,866	(926%)
Nonoperating Revenues (Expenses):				
Rentals	1,000	206	794	385%
Rentals (Related Party)	5,000	5,000	0	0%
Customer Penalties/Credit Card Fees	1,404	691	713	103%
Miscellaneous Income	0	214	(214)	(100%)
Interest Income	19,928	43,468	(23,540)	(54%)
Free Community Service Agreement	0	4,234	(4,234)	(100%)
Hail Insurance Proceeds	3,780	0	3,780	N/A
Interest Expense	(133)	(425)	292	(69%)
Net Nonoperating Revenues (Expenses)	30,979	53,388	(22,409)	(42%)
Change in Net Assets Before Special Item	116,490	43,033	73,457	171%
Special Item:				
Energy Efficiency and Conservation				
Block Grant	13,150	0	13,150	N/A
Change in Net Assets After Special Item	129,640	43,033	86,607	201%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Electric Utility Fund
Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2011	2009		
Other Financing Source:				
Operating Transfers In (Closing of the Communications Utility Fund)	0	28,903	(28,903)	(100%)
Change in Net Assets After Other Financing Source	129,640	71,936	57,704	80%
Net Assets Beginning of Year	5,704,710	5,628,794	75,916	1%
Net Assets End of Year	<u>\$ 5,834,350</u>	<u>5,700,730</u>	<u>133,620</u>	<u>2%</u>

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Water Utility Fund
Comparative Statements of Net Assets**

	June 30,		Amount of Change	Percentage of Change
	2011	2010		
Assets				
Current Assets:				
Cash	\$ 253,586	338,226	(84,640)	(25%)
Certificates of Deposit	0	50,000	(50,000)	(100%)
Accounts Receivable	36,609	36,406	203	1%
Due From Other Governments (Related Party)	11,920	721	11,199	1553%
Due From Other Governments	474	695	(221)	(32%)
Interest Receivable	0	93	(93)	(100%)
Inventory	25,122	25,856	(734)	(3%)
Prepaid Expenses	16,062	14,698	1,364	9%
Total Current Assets	343,773	466,695	(122,922)	(26%)
Restricted Cash:				
Customer Deposits	6,845	5,580	1,265	23%
Capital Assets:				
Land	118,311	118,311	0	0%
Utility Plant	4,123,355	3,974,790	148,565	4%
Transportation Equipment	29,951	18,330	11,621	63%
Office Equipment	6,498	6,498	0	0%
Tools and Safety Devices	45,116	45,116	0	0%
Communication Equipment	1,006	1,006	0	0%
Meter Testing Equipment	5,668	5,668	0	0%
Intangibles	6,710	6,710	0	0%
Total Capital Assets (Before W.I.P.)	4,336,615	4,176,429	160,186	4%
Less: Accumulated Depreciation/Amortization	(2,371,558)	(2,286,885)	(84,673)	4%
Capital Assets - Net (Before W.I.P.)	1,965,057	1,889,544	75,513	4%
Construction Work in Progress	208,701	139,193	69,508	50%
Net Capital Assets	2,173,758	2,028,737	145,021	7%
Other Assets:				
Lewis & Clark Project Membership (Related Party)	1,053,588	1,047,777	5,811	1%
Total Assets	3,577,964	3,548,789	29,175	1%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Water Utility Fund
Comparative Statements of Net Assets**

	June 30,		Amount of Change	Percentage of Change
	2011	2010		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	30,418	15,542	14,876	96%
Due To Other Utility Fund	51,785	50,639	1,146	2%
Due To Other Governments (Related Party)	90	90	0	0%
Due To Other Governments	1,331	1,438	(107)	(7%)
Contracts Payable	0	36,299	(36,299)	(100%)
Accrued Vacation/Comp Time Pay	9,932	0	9,932	N/A
Accrued Compensated Absences Pay	0	11,791	(11,791)	(100%)
Accrued Payroll & Payroll Liabilities	2,518	3,157	(639)	(20%)
Total Current Liabilities (Payable From Current Assets)	96,074	118,956	(22,882)	(19%)
Liabilities Payable From Restricted Cash:				
Customer Deposits	6,845	5,580	1,265	23%
Long-Term Liabilities:				
Accrued Sick Leave Pay	5,441	0	5,441	N/A
Advance From Other Utility Fund	577,097	619,624	(42,527)	(7%)
Total Long-Term Liabilities	582,538	619,624	(37,086)	(6%)
Total Liabilities	685,457	744,160	(58,703)	(8%)
Net Assets				
Invested in Capital Assets	2,173,758	2,028,737	145,021	7%
Unrestricted	718,749	775,892	(57,143)	(7%)
Total Net Assets	\$ 2,892,507	2,804,629	87,878	3%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Water Utility Fund
Comparative Statements of Net Assets**

	June 30,		Amount of Change	Percentage of Change
	2011	2009		
Assets				
Current Assets:				
Cash	\$ 253,586	441,098	(187,512)	(43%)
Accounts Receivable	36,609	39,276	(2,667)	(7%)
Due From Other Governments (Related Party)	11,920	646	11,274	1745%
Due From Other Governments	474	791	(317)	(40%)
Inventory	25,122	27,137	(2,015)	(7%)
Prepaid Expenses	16,062	15,177	885	6%
Total Current Assets	343,773	524,125	(180,352)	(34%)
Restricted Cash:				
Customer Deposits	6,845	4,590	2,255	49%
Capital Assets:				
Land	118,311	118,525	(214)	(0%)
Utility Plant	4,123,355	3,573,476	549,879	15%
Transportation Equipment	29,951	18,330	11,621	63%
Office Equipment	6,498	11,948	(5,450)	(46%)
Tools and Safety Devices	45,116	46,508	(1,392)	(3%)
Communication Equipment	1,006	1,955	(949)	(49%)
Meter Testing Equipment	5,668	5,668	0	0%
Intangibles	6,710	0	6,710	N/A
Total Capital Assets (Before W.I.P.)	4,336,615	3,776,410	560,205	15%
Less: Accumulated Depreciation/Amortization	(2,371,558)	(2,225,009)	(146,549)	7%
Capital Assets - Net (Before W.I.P.)	1,965,057	1,551,401	413,656	27%
Construction Work in Progress	208,701	399,734	(191,033)	(48%)
Net Capital Assets	2,173,758	1,951,135	222,623	11%
Other Assets:				
Lewis & Clark Project Membership (Related Party)	1,053,588	1,043,814	9,774	1%
Total Assets	3,577,964	3,523,664	54,300	2%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Water Utility Fund
Comparative Statements of Net Assets**

	June 30,		Amount of Change	Percentage of Change
	2011	2009		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	30,418	11,879	18,539	156%
Due To Other Utility Fund	51,785	49,505	2,280	5%
Due To Other Governments (Related Party)	90	90	0	0%
Due To Other Governments	1,331	1,482	(151)	(10%)
Contracts Payable	0	7,761	(7,761)	(100%)
Accrued Vacation/Comp Time Pay	9,932	0	9,932	N/A
Accrued Compensated Absences Pay	0	11,697	(11,697)	(100%)
Accrued Payroll & Payroll Liabilities	2,518	1,937	581	30%
Total Current Liabilities (Payable From Current Assets)	96,074	84,351	11,723	14%
Liabilities Payable From Restricted Cash:				
Customer Deposits	6,845	4,590	2,255	49%
Long-Term Liabilities:				
Accrued Sick Leave Pay	5,441	0	5,441	N/A
Advance From Other Utility Fund	577,097	660,388	(83,291)	(13%)
Total Long-Term Liabilities	582,538	660,388	(77,850)	(12%)
Total Liabilities	685,457	749,329	(63,872)	(9%)
Net Assets				
Invested in Capital Assets	2,173,758	1,951,135	222,623	11%
Unrestricted	718,749	823,200	(104,451)	(13%)
Total Net Assets	\$ 2,892,507	2,774,335	118,172	4%

See Accompanying Independent Auditor's Report.

Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Water Utility Fund
Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2011	2010		
Operating Revenues:				
Water Sales – Metered	\$ 250,839	257,463	(6,624)	(3%)
Water Sales – Rural Water System	179,379	207,590	(28,211)	(14%)
Water Sales – Tank Loads	372	612	(240)	(39%)
Material and Service Sales	4,149	73	4,076	5,584%
Service Income	592	374	218	58%
Service Income (Related Party)	2,361	2,311	50	2%
Total Operating Revenues	437,692	468,423	(30,731)	(7%)
Operating Expenses:				
Production/Processing Expense	55,948	78,583	(22,635)	(29%)
Distribution Expense	61,045	126,900	(65,855)	(52%)
Accounting and Collecting	17,882	16,645	1,237	7%
Administrative and General	96,242	88,230	8,012	9%
Free Community Service	1,550	1,400	150	11%
Transportation	1,396	2,316	(920)	(40%)
Depreciation	84,673	75,361	9,312	12%
Payroll Taxes	17,101	17,204	(103)	(1%)
Total Operating Expenses	335,837	406,639	(70,802)	(17%)
Operating Income	101,855	61,784	40,071	65%
Nonoperating Revenues (Expenses):				
Gain on Disposal of Capital Assets	9,650	0	9,650	N/A
Rentals	880	880	0	0%
Customer Penalties	215	153	62	41%
Interest Income	417	671	(254)	(38%)
Hail Insurance Proceeds	3,436	0	3,436	N/A
Loss on Disposal of Capital Assets	0	(2,867)	2,867	(100%)
Interest Expense (Gas Fund)	(28,575)	(30,327)	1,752	(6%)
Net Nonoperating Revenues (Expenses)	(13,977)	(31,490)	17,513	(56%)
Change in Net Assets	87,878	30,294	57,584	190%
Net Assets Beginning of Year	2,804,629	2,774,335	30,294	1%
Net Assets End of Year	\$ 2,892,507	2,804,629	87,878	3%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Water Utility Fund**

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2011	2009		
Operating Revenues:				
Water Sales – Metered	\$ 250,839	257,641	(6,802)	(3%)
Water Sales – Rural Water System	179,379	241,175	(61,796)	(26%)
Water Sales – Tank Loads	372	2,613	(2,241)	(86%)
Material and Service Sales	4,149	797	3,352	421%
Service Income	592	864	(272)	(31%)
Service Income (Related Party)	2,361	1,767	594	34%
Total Operating Revenues	437,692	504,857	(67,165)	(13%)
Operating Expenses:				
Production/Processing Expense	55,948	76,898	(20,950)	(27%)
Distribution Expense	61,045	81,426	(20,381)	(25%)
Accounting and Collecting	17,882	15,042	2,840	19%
Administrative and General	96,242	80,669	15,573	19%
Free Community Service	1,550	1,400	150	11%
Transportation	1,396	2,859	(1,463)	(51%)
Depreciation	84,673	86,430	(1,757)	(2%)
Payroll Taxes	17,101	19,159	(2,058)	(11%)
Total Operating Expenses	335,837	363,883	(28,046)	(8%)
Operating Income	101,855	140,974	(39,119)	(28%)
Nonoperating Revenues (Expenses):				
Gain on Disposal of Capital Assets	9,650	0	9,650	N/A
Rentals	880	1,680	(800)	(48%)
Customer Penalties	215	96	119	124%
Interest Income	417	2,461	(2,044)	(83%)
Hail Insurance Proceeds	3,436	0	3,436	N/A
Interest Expense (Gas Fund)	(28,575)	(32,048)	3,473	(11%)
Net Nonoperating Revenues (Expenses)	(13,977)	(27,811)	13,834	(50%)
Change in Net Assets	87,878	113,163	(25,285)	(22%)
Net Assets Beginning of Year	2,804,629	2,661,172	143,457	5%
Net Assets End of Year	\$ 2,892,507	2,774,335	118,172	4%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Sewer Utility Fund
Comparative Statements of Net Assets**

	June 30,		Amount of Change	Percentage of Change
	2011	2010		
Assets				
Current Assets:				
Cash	\$ 180,803	230,074	(49,271)	(21%)
Certificates of Deposit	0	25,000	(25,000)	(100%)
Accounts Receivable	19,047	19,048	(1)	(0%)
Due From Other Governments (Related Party)	592	618	(26)	(4%)
Due From Other Governments	546	9,605	(9,059)	(94%)
Interest Receivable	0	44	(44)	(100%)
Prepaid Expenses	12,370	12,284	86	1%
Total Current Assets	213,358	296,673	(83,315)	(28%)
Restricted Cash:				
Depreciation Reserves	12,578	9,194	3,384	37%
Capital Assets:				
Utility Plant	2,217,179	2,031,280	185,899	9%
Transportation Equipment	38,380	38,380	0	0%
Office Equipment	730	730	0	0%
Tools and Safety Devices	30,251	30,251	0	0%
Intangibles	3,355	3,355	0	0%
Total Capital Assets (Before W.I.P.)	2,289,895	2,103,996	185,899	9%
Less: Accumulated Depreciation/Amortization	(1,402,693)	(1,367,903)	(34,790)	3%
Capital Assets - Net (Before W.I.P.)	887,202	736,093	151,109	21%
Construction Work in Progress	53,940	147,102	(93,162)	(63%)
Net Capital Assets	941,142	883,195	57,947	7%
Total Assets	1,167,078	1,189,062	(21,984)	(2%)

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Sewer Utility Fund
Comparative Statements of Net Assets**

	<u>June 30,</u>		Amount of Change	Percentage of Change
	2011	2010		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	2,578	9,893	(7,315)	(74%)
Due to Other Utility Fund	15,396	14,731	665	5%
Due To Other Governments (Related Party)	45	45	0	0%
Due To Other Governments	206	220	(14)	(6%)
Construction Contracts Payable	2,020	4,692	(2,672)	(57%)
Accrued Vacation/Comp Time Pay	7,144	0	7,144	N/A
Accrued Compensated Absences Pay	0	11,267	(11,267)	(100%)
Accrued Payroll & Payroll Liabilities	1,978	1,651	327	20%
Total Current Liabilities (Payable From Current Assets)	29,367	42,499	(13,132)	(31%)
Long-Term Liabilities:				
Accrued Sick Leave Pay	5,300	0	5,300	N/A
Advance From Other Utility Fund	64,771	80,167	(15,396)	(19%)
Total Long-Term Liabilities	70,071	80,167	(10,096)	(13%)
Total Liabilities	99,438	122,666	(23,228)	(19%)
Net Assets				
Invested in Capital Assets, Net of Related Debt	860,975	788,339	72,636	9%
Restricted for:				
Depreciation Reserves	12,578	9,194	3,384	37%
Unrestricted	194,087	268,863	(74,776)	(28%)
Total Net Assets	\$ 1,067,640	1,066,396	1,244	0%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Sewer Utility Fund
Comparative Statements of Net Assets**

	June 30,		Amount of Change	Percentage of Change
	2011	2009		
Assets				
Current Assets:				
Cash	\$ 180,803	215,887	(35,084)	(16%)
Accounts Receivable	19,047	17,754	1,293	7%
Due From Other Governments (Related Party)	592	214	378	177%
Due From Other Governments	546	7,597	(7,051)	(93%)
Prepaid Expenses	12,370	9,140	3,230	35%
Total Current Assets	213,358	250,592	(37,234)	(15%)
Restricted Cash:				
Depreciation Reserves	12,578	82,552	(69,974)	(85%)
Capital Assets:				
Utility Plant	2,217,179	2,008,624	208,555	10%
Transportation Equipment	38,380	38,380	0	0%
Office Equipment	730	4,421	(3,691)	(83%)
Tools and Safety Devices	30,251	25,865	4,386	17%
Intangibles	3,355	0	3,355	N/A
Total Capital Assets (Before W.I.P.)	2,289,895	2,077,290	212,605	10%
Less: Accumulated Depreciation/Amortization	(1,402,693)	(1,353,018)	(49,675)	4%
Capital Assets - Net (Before W.I.P.)	887,202	724,272	162,930	22%
Construction Work in Progress	53,940	32,477	21,463	66%
Net Capital Assets	941,142	756,749	184,393	24%
Total Assets	1,167,078	1,089,893	77,185	7%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Sewer Utility Fund
Comparative Statements of Net Assets**

	June 30,		Amount of Change	Percentage of Change
	2011	2009		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	2,578	3,851	(1,273)	(33%)
Due to Other Utility Fund	15,396	14,048	1,348	10%
Due To Other Governments (Related Party)	45	45	0	0%
Due To Other Governments	206	203	3	1%
Construction Contracts Payable	2,020	0	2,020	N/A
Accrued Vacation/Comp Time Pay	7,144	0	7,144	N/A
Accrued Compensated Absences Pay	0	7,193	(7,193)	(100%)
Accrued Payroll & Payroll Liabilities	1,978	1,303	675	52%
Total Current Liabilities (Payable From Current Assets)	29,367	26,643	2,724	10%
Long-Term Liabilities:				
Accrued Sick Leave Pay	5,300	0	5,300	N/A
Advance From Other Utility Fund	64,771	94,855	(30,084)	(32%)
Total Long-Term Liabilities	70,071	94,855	(24,784)	(26%)
Total Liabilities	99,438	121,498	(22,060)	(18%)
Net Assets				
Invested in Capital Assets, Net of Related Debt	860,975	647,889	213,086	33%
Restricted for:				
Depreciation Reserves	12,578	82,552	(69,974)	(85%)
Unrestricted	194,087	237,954	(43,867)	(18%)
Total Net Assets	\$ 1,067,640	968,395	99,245	10%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Sewer Utility Fund**

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2011	2010		
Operating Revenues:				
Sewer Service	\$ 236,370	236,157	213	0%
Material and Service Sales	450	0	450	N/A
Service Income (Related Party)	1,180	1,156	24	2%
Total Operating Revenues	238,000	237,313	687	0%
Operating Expenses:				
Production/Processing Expense	119,463	98,149	21,314	22%
Accounting and Collecting	7,068	6,565	503	8%
Administrative and General	55,279	51,006	4,273	8%
Free Community Service (Related Party)	3,838	3,694	144	4%
Transportation	3,098	2,456	642	26%
Depreciation	34,790	30,434	4,356	14%
Payroll Taxes	11,480	9,881	1,599	16%
Total Operating Expenses	235,016	202,185	32,831	16%
Operating Income	2,984	35,128	(32,144)	(92%)
Nonoperating Revenues (Expenses):				
Customer Penalties	204	153	51	33%
Interest Income	355	444	(89)	(20%)
Hail Insurance Proceeds	1,001	0	1,001	N/A
Loss on Disposal of Capital Assets	0	(1,450)	1,450	(100%)
Interest Expense (Gas Fund)	(4,169)	(4,895)	726	(15%)
Net Nonoperating Revenues (Expenses)	(2,609)	(5,748)	3,139	(55%)
Change in Net Assets Before Special Item	375	29,380	(29,005)	(99%)
Special Item:				
WTFAP Grant	869	68,621	(67,752)	(99%)
Change in Net Assets After Special Item	1,244	98,001	(96,757)	(99%)
Net Assets Beginning of Year	1,066,396	968,395	98,001	10%
Net Assets End of Year	\$ 1,067,640	1,066,396	1,244	0%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Sewer Utility Fund**

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2011	2009		
Operating Revenues:				
Sewer Service	\$ 236,370	237,568	(1,198)	(1%)
Material and Service Sales	450	0	450	N/A
Service Income (Related Party)	1,180	883	297	34%
Total Operating Revenues	238,000	238,451	(451)	(0%)
Operating Expenses:				
Production/Processing Expense	119,463	97,238	22,225	23%
Accounting and Collecting	7,068	5,934	1,134	19%
Administrative and General	55,279	40,627	14,652	36%
Free Community Service (Related Party)	3,838	4,327	(489)	(11%)
Transportation	3,098	2,584	514	20%
Depreciation	34,790	33,760	1,030	3%
Payroll Taxes	11,480	9,231	2,249	24%
Total Operating Expenses	235,016	193,701	41,315	21%
Operating Income	2,984	44,750	(41,766)	(93%)
Nonoperating Revenues (Expenses):				
Customer Penalties	204	104	100	96%
Interest Income	355	858	(503)	(59%)
Hail Insurance Proceeds	1,001	0	1,001	N/A
Interest Expense (Gas Fund)	(4,169)	(5,542)	1,373	(25%)
Net Nonoperating Revenues (Expenses)	(2,609)	(4,580)	1,971	(43%)
Change in Net Assets Before Special Item	375	40,170	(39,795)	(99%)
Special Item:				
WTFAP Grant	869	7,013	(6,144)	(88%)
Change in Net Assets After Special Item	1,244	47,183	(45,939)	(97%)
Net Assets Beginning of Year	1,066,396	921,212	145,184	16%
Net Assets End of Year	\$ 1,067,640	968,395	99,245	10%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Gas Utility Fund
Comparative Statements of Net Assets**

	June 30,		Amount of Change	Percentage of Change
	2011	2010		
Assets				
Current Assets:				
Cash	\$ 727,666	282,524	445,142	158%
Certificates of Deposit	2,325,000	2,775,000	(450,000)	(16%)
Accounts Receivable	69,880	54,769	15,111	28%
Due From Other Utility Funds	67,181	65,370	1,811	3%
Due From Governmental (Revolving Loan) Fund	501	0	501	N/A
Due From Other Governments (Related Party)	814	1,304	(490)	(38%)
Due From Other Governments	1,749	1,132	617	55%
Notes Receivable - Rock Rapids Development Corporation	5,447	0	5,447	N/A
Interest Receivable	13,460	16,979	(3,519)	(21%)
Inventory	33,882	43,457	(9,575)	(22%)
Prepaid Expenses	11,389	10,462	927	9%
Total Current Assets	3,256,969	3,250,997	5,972	0%
Restricted Cash:				
Customer Deposits	30,238	30,793	(555)	(2%)
Capital Assets:				
Land	13,863	13,863	0	0%
Utility Plant	920,217	909,350	10,867	1%
Transportation Equipment	101,000	72,672	28,328	39%
Office Equipment	7,596	7,596	0	0%
Tools and Safety Devices	75,897	75,897	0	0%
Intangibles	11,990	11,990	0	0%
Total Capital Assets (Before W.I.P)	1,130,563	1,091,368	39,195	4%
Less: Accumulated Depreciation/Amortization	(583,746)	(543,935)	(39,811)	7%
Capital Assets – Net (Before W.I.P)	546,817	547,433	(616)	(0%)
Construction Work in Progress	81,440	0	81,440	N/A
Net Capital Assets	628,257	547,433	80,824	15%
Other Assets:				
Advances To Other Utility Funds	641,868	699,791	(57,923)	(8%)
Notes Receivable - Rock Rapids Development Corporation	209,553	215,000	(5,447)	(3%)
Total Other Assets	851,421	914,791	(63,370)	(7%)
Total Assets	4,766,885	4,744,014	22,871	0%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Gas Utility Fund
Comparative Statements of Net Assets**

	June 30,		Amount of Change	Percentage of Change
	2011	2010		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	5,054	3,686	1,368	37%
Due To Other Governments (Related Party)	21,429	18,480	2,949	16%
Due To Other Governments	1,050	1,234	(184)	(15%)
Accrued Vacation/Comp Time Pay	15,473	0	15,473	N/A
Accrued Compensated Absences Pay	0	22,069	(22,069)	(100%)
Accrued Payroll & Payroll Liabilities	3,984	4,222	(238)	(6%)
Unearned Income	59,412	52,526	6,886	13%
Total Current Liabilities	106,402	102,217	4,185	4%
(Payable From Current Assets)				
Liabilities Payable From Restricted Cash:				
Customer Deposits	30,238	30,793	(555)	(2%)
Long-Term Liabilities:				
Accrued Sick Leave Pay	10,279	0	10,279	N/A
Total Liabilities	146,919	133,010	13,909	10%
Net Assets				
Invested in Capital Assets	628,257	547,433	80,824	15%
Unrestricted	3,991,709	4,063,571	(71,862)	(2%)
Total Net Assets	\$ 4,619,966	4,611,004	8,962	0%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Gas Utility Fund
Comparative Statements of Net Assets**

	June 30,		Amount of Change	Percentage of Change
	2011	2009		
Assets				
Current Assets:				
Cash	\$ 727,666	211,178	516,488	245%
Certificates of Deposit	2,325,000	2,925,000	(600,000)	(21%)
Accounts Receivable	69,880	14,607	55,273	378%
Due From Other Utility Funds	67,181	63,553	3,628	6%
Due From Governmental (Revolving Loan) Fund	501	0	501	N/A
Due From Other Governments (Related Party)	814	207	607	293%
Due From Other Governments	1,749	1,067	682	64%
Notes Receivable - Rock Rapids Development Corp.	5,447	0	5,447	N/A
Interest Receivable	13,460	28,765	(15,305)	(53%)
Inventory	33,882	44,881	(10,999)	(25%)
Prepaid Expenses	11,389	10,685	704	7%
Total Current Assets	3,256,969	3,299,943	(42,974)	(1%)
Restricted Cash:				
Customer Deposits	30,238	32,203	(1,965)	(6%)
Capital Assets:				
Land	13,863	14,077	(214)	(2%)
Utility Plant	920,217	867,804	52,413	6%
Transportation Equipment	101,000	72,672	28,328	39%
Office Equipment	7,596	17,482	(9,886)	(57%)
Tools and Safety Devices	75,897	79,275	(3,378)	(4%)
Intangibles	11,990	0	11,990	N/A
Total Capital Assets	1,130,563	1,051,310	79,253	8%
Less: Accumulated Depreciation/Amortization	(583,746)	(523,902)	(59,844)	11%
Capital Assets - Net (Before W.I.P)	546,817	527,408	19,409	4%
Construction Work in Progress	81,440	14,880	66,560	447%
Net Capital Assets	628,257	542,288	85,969	16%
Other Assets:				
Advances To Other Utility Funds	641,868	755,243	(113,375)	(15%)
Notes Receivable - Rock Rapids Development Corp.	209,553	0	209,553	N/A
Total Other Assets	851,421	755,243	96,178	21%
Total Assets	4,766,885	4,629,677	137,208	3%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Gas Utility Fund
Comparative Statements of Net Assets**

	June 30,		Amount of Change	Percentage of Change
	2011	2009		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	5,054	3,107	1,947	63%
Due To Other Governments (Related Party)	21,429	17,231	4,198	24%
Due To Other Governments	1,050	1,110	(60)	(5%)
Accrued Vacation/Comp Time Pay	15,473	0	15,473	N/A
Accrued Compensated Absences Pay	0	19,993	(19,993)	(100%)
Accrued Payroll & Payroll Liabilities	3,984	2,826	1,158	41%
Unearned Income	59,412	24,817	34,595	139%
Total Current Liabilities	106,402	69,084	37,318	54%
(Payable From Current Assets)				
Liabilities Payable From Restricted Cash:				
Customer Deposits	30,238	32,203	(1,965)	(6%)
Long-Term Liabilities:				
Accrued Sick Leave Pay	10,279	0	10,279	N/A
Total Liabilities	146,919	101,287	45,632	45%
Net Assets				
Invested in Capital Assets	628,257	542,288	85,969	16%
Unrestricted	3,991,709	3,986,102	5,607	0%
Total Net Assets	\$ 4,619,966	4,528,390	91,576	2%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Gas Utility Fund**

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2011	2010		
Operating Revenues:				
Residential Gas Sales	\$ 747,290	769,545	(22,255)	(3%)
Commercial Gas Sales	381,605	440,100	(58,495)	(13%)
Material and Service Sales	267	1,203	(936)	(78%)
Service Income	1,017	2,888	(1,871)	(65%)
Service Income (Related Party)	4,132	4,044	88	2%
Total Operating Revenues	1,134,311	1,217,780	(83,469)	(7%)
Operating Expenses:				
Production/Processing Expense	784,235	907,297	(123,062)	(14%)
Distribution Expense	116,715	85,742	30,973	36%
Accounting and Collecting	29,097	29,983	(886)	(3%)
Administrative and General	158,430	146,785	11,645	8%
Free Community Service (Related Party)	0	15,075	(15,075)	(100%)
Free Community Service	7,975	7,300	675	9%
Transportation	4,825	3,576	1,249	35%
Depreciation	39,811	36,695	3,116	8%
Payroll Taxes	22,985	21,422	1,563	7%
Total Operating Expenses	1,164,073	1,253,875	(89,802)	(7%)
Operating Loss	(29,762)	(36,095)	6,333	(18%)
Nonoperating Revenues (Expenses):				
Customer Penalties	1,351	830	521	63%
Gas Rate Case Settlement	3,233	3,779	(546)	(14%)
Interest Income	59,741	79,514	(19,773)	(25%)
Interest Income (Water, Sewer Funds)	32,744	35,222	(2,478)	(7%)
Hail Insurance Proceeds	1,901	0	1,901	N/A
Loss on Disposal of Capital Assets	0	(210)	210	(100%)
Interest Expense	(246)	(426)	180	(42%)
Net Nonoperating Revenues (Expenses)	98,724	118,709	(19,985)	(17%)
Change in Net Assets Before Other Financing Use	68,962	82,614	(13,652)	(17%)
Other Financing Use:				
Operating Transfers Out (Transfer to Establish a New Revolving Loan Fund)	(60,000)	0	(60,000)	N/A
Change in Net Assets After Other Financing Use	8,962	82,614	(73,652)	(89%)
Net Assets Beginning of Year	4,611,004	4,528,390	82,614	2%
Net Assets End of Year	\$ 4,619,966	4,611,004	8,962	0%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Gas Utility Fund**

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2011	2009		
Operating Revenues:				
Residential/Commercial Gas Sales	\$ 1,128,895	1,238,445	(109,550)	(9%)
Material and Service Sales	267	103	164	159%
Service Income	1,017	830	187	23%
Service Income (Related Party)	4,132	3,091	1,041	34%
Propane Sold	0	20,024	(20,024)	(100%)
Total Operating Revenues	1,134,311	1,262,493	(128,182)	(10%)
Operating Expenses:				
Production/Processing Expense	784,235	1,068,820	(284,585)	(27%)
Distribution Expense	116,715	101,149	15,566	15%
Accounting and Collecting	29,097	27,258	1,839	7%
Administrative and General	158,430	131,671	26,759	20%
Free Community Service (Related Party)	0	51,000	(51,000)	(100%)
Free Community Service	7,975	11,300	(3,325)	(29%)
Transportation	4,825	4,059	766	19%
Depreciation	39,811	39,561	250	1%
Payroll Taxes	22,985	19,839	3,146	16%
Total Operating Expenses	1,164,073	1,454,657	(290,584)	(20%)
Operating Loss	(29,762)	(192,164)	162,402	(85%)
Nonoperating Revenues (Expenses):				
Customer Penalties	1,351	1,243	108	9%
Gas Rate Case Settlement	3,233	3,456	(223)	(6%)
Interest Income	59,741	96,034	(36,293)	(38%)
Interest Income (Water, Sewer Funds)	32,744	37,590	(4,846)	(13%)
Hail Insurance Proceeds	1,901	0	1,901	N/A
Loss on Disposal of Capital Assets	0	(41,730)	41,730	(100%)
Interest Expense	(246)	(817)	571	(70%)
Net Nonoperating Revenues (Expenses)	98,724	95,776	2,948	3%
Change in Net Assets Before Special Item	68,962	(96,388)	165,350	(172%)

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Gas Utility Fund**

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2011	2009		
Special Item:				
Membership Termination - NPGA (Related Party)	0	368,997	(368,997)	(100%)
Change in Net Assets After Special Item	68,962	272,609	(203,647)	(75%)
Other Financing Use:				
Operating Transfers Out (Transfer to Establish a New Revolving Loan Fund)	(60,000)	0	(60,000)	N/A
Change in Net Assets After Other Financing Use	8,962	272,609	(263,647)	(97%)
Net Assets Beginning of Year	4,611,004	4,255,781	355,223	8%
Net Assets End of Year	\$ 4,619,966	4,528,390	91,576	2%

See Accompanying Independent Auditor's Report

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

**Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial
Statements Performed in Accordance with
*Government Auditing Standards***

DE NOBLE & COMPANY PC

Certified Public Accountants

MEMBERS

111 S. Story Street
Rock Rapids, IA 51246

American Institute - Certified Public Accountants
Private Companies Practice Section
Iowa Society - Certified Public Accountants

Phone : (712) 472-2549
Fax : (712) 472-2540
Email : ssdnrr@hickorytech.net

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Members of the Utilities Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the Rock Rapids Municipal Utilities, a Component Unit of the City of Rock Rapids, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the Utilities' basic financial statements listed in the table of contents, and have issued our report thereon dated January 24, 2012. The report on the business type activities and the proprietary funds was adverse due to management not recording the net other postemployment benefits (OPEB liability), the corresponding OPEB expense and the disclosures on the OPEB obligation in the notes to the financial statements. Accounting principles generally accepted in the United States of America require that the net OPEB liability be reported and expensed, which would increase liabilities and expenses and decrease net assets of the business type activities and the proprietary funds and that certain information/data be disclosed in the notes to the financial statements in regards to the OPEB. The amounts by which this departure would affect the liabilities, net assets and expenses of the business type activities and the proprietary funds and the failure to report the required OPEB disclosures are not reasonably determinable. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rock Rapids Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Rock Rapids Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rock Rapids Municipal Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of

deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Rock Rapids Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in the Rock Rapids Municipal Utilities' internal control described in the accompanying Schedule of Findings as items (A), (B), (C), (D), (E) and (F) to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (G) and (H) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rock Rapids Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Rock Rapids Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utilities' responses, we did not audit the Rock Rapids Municipal Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, constituents and customers of the Rock Rapids Municipal Utilities and other parties to whom the Utilities may report, including any grantor entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Rock Rapids Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



De Noble & Company PC
Certified Public Accountants

January 24, 2012

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Schedule of Findings

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids
Schedule of Findings
Year Ended June 30, 2011

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- 11-A Segregation of Duties – One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the handling of assets and various aspects of the recordkeeping functions are not entirely separated among employees.
- Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utilities should review its operating procedures to obtain the maximum internal control possible under the circumstances. The Utilities inability to eliminate segregation of duties issues reduces the effectiveness of the Utilities control environment and increases the risk of material errors, theft or fraud not being detected.
- Response – We will attempt to segregate duties to the extent possible within economic constraints.
- Conclusion – Response acknowledged. The Utilities should segregate duties to the extent possible with existing personnel and by utilizing administrative personnel, governing body members and the City's administrative personnel to provide additional control through review of financial transactions and reports.
- 11-B Job Rotations – Financial personnel's duties are not always rotated for a period of time each fiscal year.
- Recommendation – The Utilities has implemented procedures to cross-train employees to be able to perform a fellow employee's duties. The Utilities should utilize this cross-training to have each person's duties done by another employee for a period of time each fiscal year. This is important in case an employee unexpectedly becomes unavailable for an extended period of time and serves as an important aspect in the control environment.
- Response – We have cross-trained our employees. We will work toward having our employees rotate duties for a period of time each fiscal year.
- Conclusion – Response accepted.
- 11-C Financial Reporting – During the audit, we identified material amounts of assets, liabilities, net assets, revenues and expenses not recorded properly in the Utilities' financial statements and disclosures not properly being reported on in the Utilities' notes to the financial statements. The subsidiary ledger detail is not being reconciled to the general ledger control accounts on a regular basis. We noted discrepancies between the account

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids
Schedule of Findings
Year Ended June 30, 2011

classifications on employees' timesheets and the general ledger account the payroll time was actually posted to. Adjustments/disclosure changes were subsequently made by the Utilities to properly include these amounts, including making sure subsidiary detail and general ledger control accounts and employees timesheets and the general ledger account payroll was posted to all properly reconcile, and disclosures in the financial statements and notes except as previously noted for the OPEB obligation.

Recommendation – The Utilities should implement procedures and controls and conduct staff training to ensure all assets, liabilities, net assets, revenues, expenses and disclosures are identified and included in the Utilities' financial statements and notes. Detailed subsidiary records should be maintained on most asset and liability accounts (examples: accounts receivable and accounts payable) and reconciliations of these subsidiary records with the corresponding general ledger control account should be prepared on a monthly basis by an independent person. Payroll timesheets need to be compared to the general ledger account that the payroll is being recorded to by an independent person before being posted to the general ledger records. Management should be monitoring procedures and controls and reviewing the financial records/reporting on a regular basis to help ensure the accuracy of the financial records/reporting.

Response – We will review our current procedures and controls in all accounting aspects to identify areas where we can improve on our financial records/reporting going forward.

Conclusion – Response accepted.

- 11-D Inventory Records – The Utilities is not consistently following inventory procedures. We noted that there were many changes that needed to be made to the detailed inventory records when the physical inventory count was taken. The inventory records are not monitored on a regular on-going basis.

Recommendation – Inventory procedures and monitoring should be analyzed for ways to increase accuracy, controls and efficiency. The Utilities should consider the possible benefits of computerizing its inventory records.

Response – We will work on developing new inventory procedures that we will be implementing consistently. This will help improve our detailed inventory records.

Conclusion – Response accepted. Please attempt to develop inventory procedures and monitoring that will be consistently applied to increase accuracy, controls and efficiency.

- 11-E Safeguarding of Assets – It was noted that the supply of unused check stock is being stored out in an open central location in the office rather than in a secure locked location.

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids
Schedule of Findings
Year Ended June 30, 2011

Recommendation – The Utilities should implement policies that the supply of unused check stock is stored in a secure locked location with access limited to only authorized individuals.

Response – We will ensure the checks are moved to a secure location.

Conclusion – Response accepted.

11-F On-Line Banking Procedures – The Utilities does not have procedures in place to review on-line banking activity regularly. The UCC provides that businesses have two days to detect a fraudulent bank transaction in order for the financial institution to be responsible for the transaction.

Recommendation – The Utilities should implement procedures to review their online banking account frequently in order to ensure fraudulent activity would be detected and reported within the allotted timeframe provided by the UCC.

Response – We will implement procedures to review on-line banking activity on a regular timely basis.

Conclusion – Response accepted.

11-G Payroll Procedures – We noted a couple instances where there was no written absentee slip and a couple instances where there was no absentee slip approval documented by the employee's supervisor for compensated absence time payment. Additionally, excess carryover of vacation time is not always being approved by the Board. During the audit, we noted issues with how the time clock is being used by employees to track time. Employees may take personal time and leave early on a particular day and then make up the time on a different day; however, the employee's timecard is punched by a co-worker as if the employee worked the normal hours for the day.

Recommendation – Absentee slips should be completed and approved by an employee's supervisor for all compensated absences before payment is authorized. Any excess carryover of vacation time should be approved by the Board. The Board needs to address time clock procedures/issues of taking off personal time one day and putting in extra time worked another day.

Response – We have implemented new procedures for employee's time tracking, including a new time clock system and software, which we feel will resolve many of the issues noted. We will have the Board approve excess carryover of vacation time.

Conclusion – Response accepted.

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids
Schedule of Findings
Year Ended June 30, 2011

11-H Disbursement Procedures – We noted several instances where the only supporting documentation on file was a copy of a credit card slip (no detailed support). There were also several petty cash disbursements which did not have receipts/invoices and one mileage reimbursement that didn't have any support for miles reimbursed.

Recommendation – All disbursements, including employee reimbursements, (including reimbursement of mileage), credit card charges, and petty cash disbursements need to be supported by some type of documentation, an actual receipt or invoice that supports the disbursement in detail. This documentation, receipt or invoice needs to be marked "paid" or otherwise cancelled upon payment to avoid duplicate payment and needs to be retained and filed as proof for the disbursement.

Response – We will evaluate our disbursement procedures in an attempt to identify ways we can eliminate this issue.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids
Schedule of Findings
Year Ended June 30, 2011

Other Findings Related to Required Statutory Reporting:

- 11-1 Certified Budget – The Rock Rapids Municipal Utilities is budgeted as a part of the City of Rock Rapids. Disbursements during the fiscal year ended June 30, 2011 did not exceed the amount budgeted for the Rock Rapids Municipal Utilities in the business type activities function; however, disbursements in the community and economic development function for the Rock Rapids Municipal Utilities did exceed the amount budgeted as part of the City of Rock Rapids' adopted budget.

Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – This was the first year for the new Revolving Loan Fund. We will make sure disbursements for that fund are properly budgeted in the future.

Conclusion – Response accepted.

- 11-2 Questionable Expenses – Certain expenses we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented or the necessary documentation to support the expense was not present were noted. These expenses are detailed as follows:

The Utilities purchased food for Board of Trustees meetings, a few gift items for a retiring employee (guest book, centerpiece and a mantel clock). Also, the only support for several credit card charges was a copy of a credit card slip (there was no detailed receipt/supporting documentation), and several petty cash payments had no supporting documentation. There were also several disbursements which did not have any supporting documentation on file.

According to the opinion, it is possible for such expenses to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation – The Utilities Board should determine and document the public purpose served by these expenses before authorizing any further payments. If this practice is continued, the Utilities Board should establish written policies (example: a written food, gifts and sustenance purchases policy should be adopted by the Board of Trustees) and procedures, including the requirement for proper documentation. All disbursements,

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids
Schedule of Findings
Year Ended June 30, 2011

including credit card charges and employee reimbursements, should be supported by an actual receipt/invoice that supports the expense in detail.

Response – Based on a discussion with an attorney from the Iowa Ethics and Campaign Disclosure Board, we believe the food for meetings and tokens of appreciation to a retiring employee satisfy the public purpose criteria. We will evaluate our disbursement procedures to make sure we retain proper supporting documentation for all disbursements.

Conclusion – Response accepted. We do believe the Utilities should formally adopt a written food, gifts, and sustenance purchases policy.

11-3 Travel Expense – No expenses of Utilities money for travel expenses of spouses of Utilities officials or employees were noted. However, please see “Other Findings Related to Required Statutory Reporting: 11-2” for a possible related comment.

11-4 Business Transactions – No business transactions between the Utilities and Utilities officials or employees were noted.

11-5 Bond Coverage - Surety bond coverage of Utilities officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

11-6 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not. Although all minutes of the Trustees were published, there was one instance was noted where the Board of Trustees’ meeting minutes was not published within 15 days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The Utilities should implement policies and procedures to ensure that the minutes of all Board of Trustees’ meetings are published within 15 days of each meeting in accordance with the Code of Iowa.

Response – We will work toward ensuring that all open meeting requirements are met.

Conclusion – Response accepted.

11-7 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utilities’ investment policy were noted.

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids
Schedule of Findings
Year Ended June 30, 2011

11-8 Revenue Bonds/Notes – The Utilities did not have any revenue bonds or notes payable during the fiscal year ended June 30, 2011.

11-9 Internal Revenue Service Reporting Compliance – The Utilities awarded each of the employees with a gift certificate. The Utilities treated these payments as non-taxable to the employees; however, these are taxable earnings to the employees per Internal Revenue Code regulations.

Recommendation – The Utilities should be following Internal Revenue Code regulations and properly report gift certificates issued to employees as taxable earnings to the employees. The Utilities should amend prior tax reports and forms that were filed improperly.

Response – We will implement procedures to ensure gift certificates issued to employees are reported as taxable.

Conclusion – Response accepted.

11-10 Sales Tax Exemption Certificates – The Utilities has several sales tax exemption certificates from customers which expired during the fiscal year and were not updated; however, the Utilities continued to honor the expired sales tax exemption certificates.

Recommendation – The Utilities should implement procedures to ensure that customers with expired sales tax exemption certificates are kept current in order for the Utilities to continue to allow the sales tax exemption.

Response – We are updating the expired certificates and will implement procedures to ensure expired sales tax exemption certificates are renewed timely before expiring.

Conclusion – Response accepted.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Staff

This audit was performed by:

David De Noble, CPA, Senior Auditor
Carmen Austin, CPA, Senior Auditor
Cory Leman, Assistant Auditor
Craig Hoekstra, Assistant Auditor
Kayla Reck, Assistant Auditor

De Noble & Company PC
Certified Public Accountants